



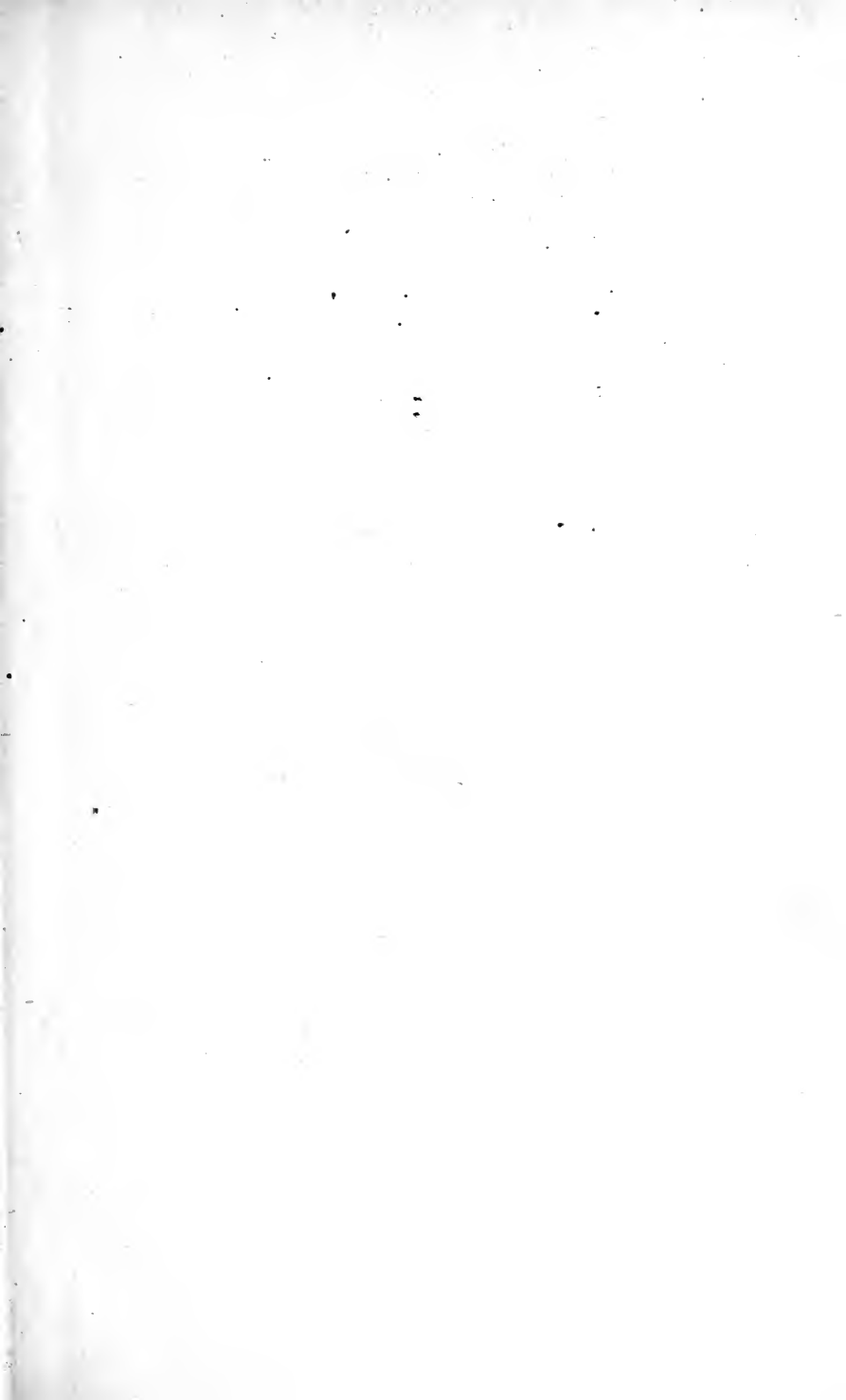




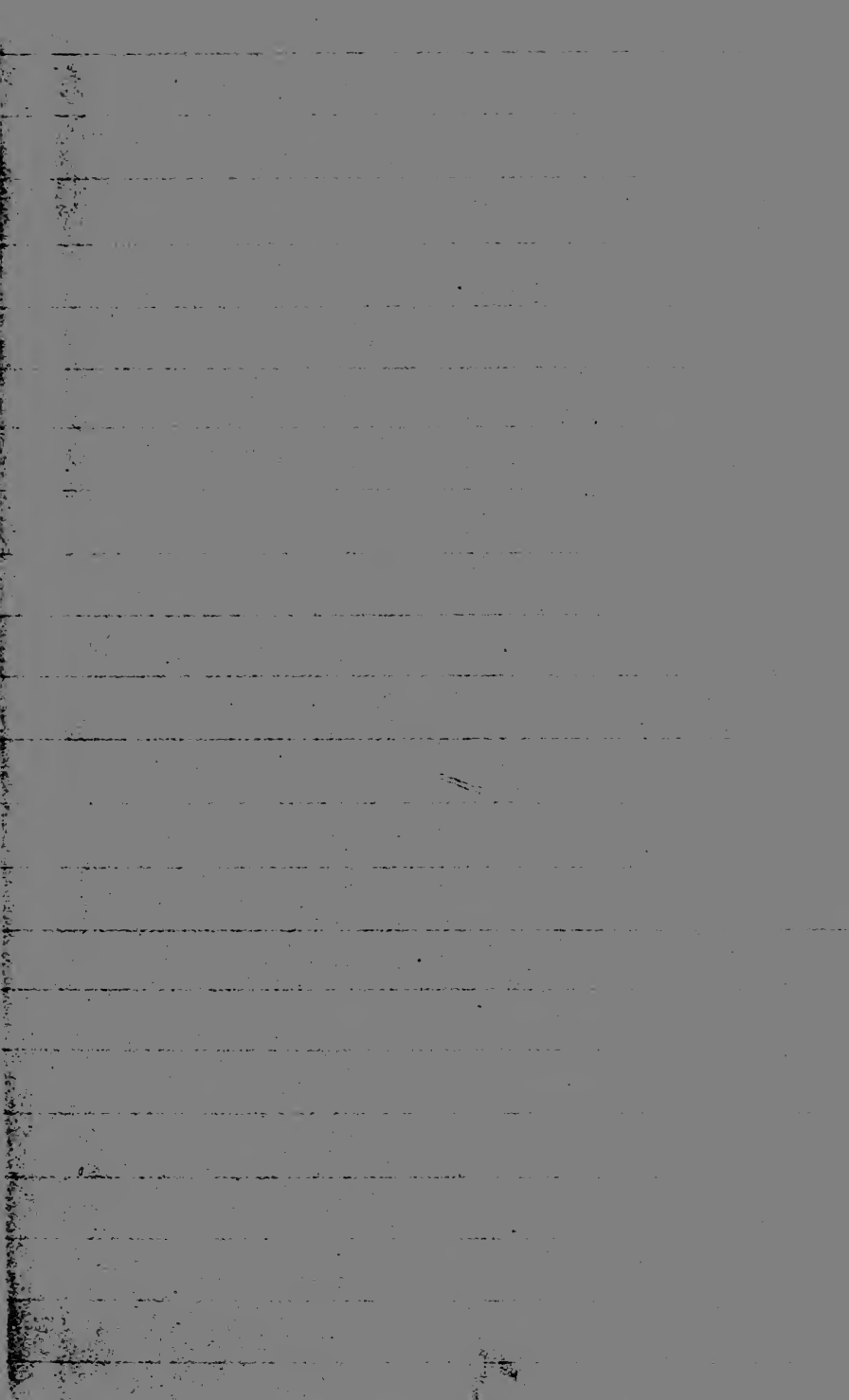
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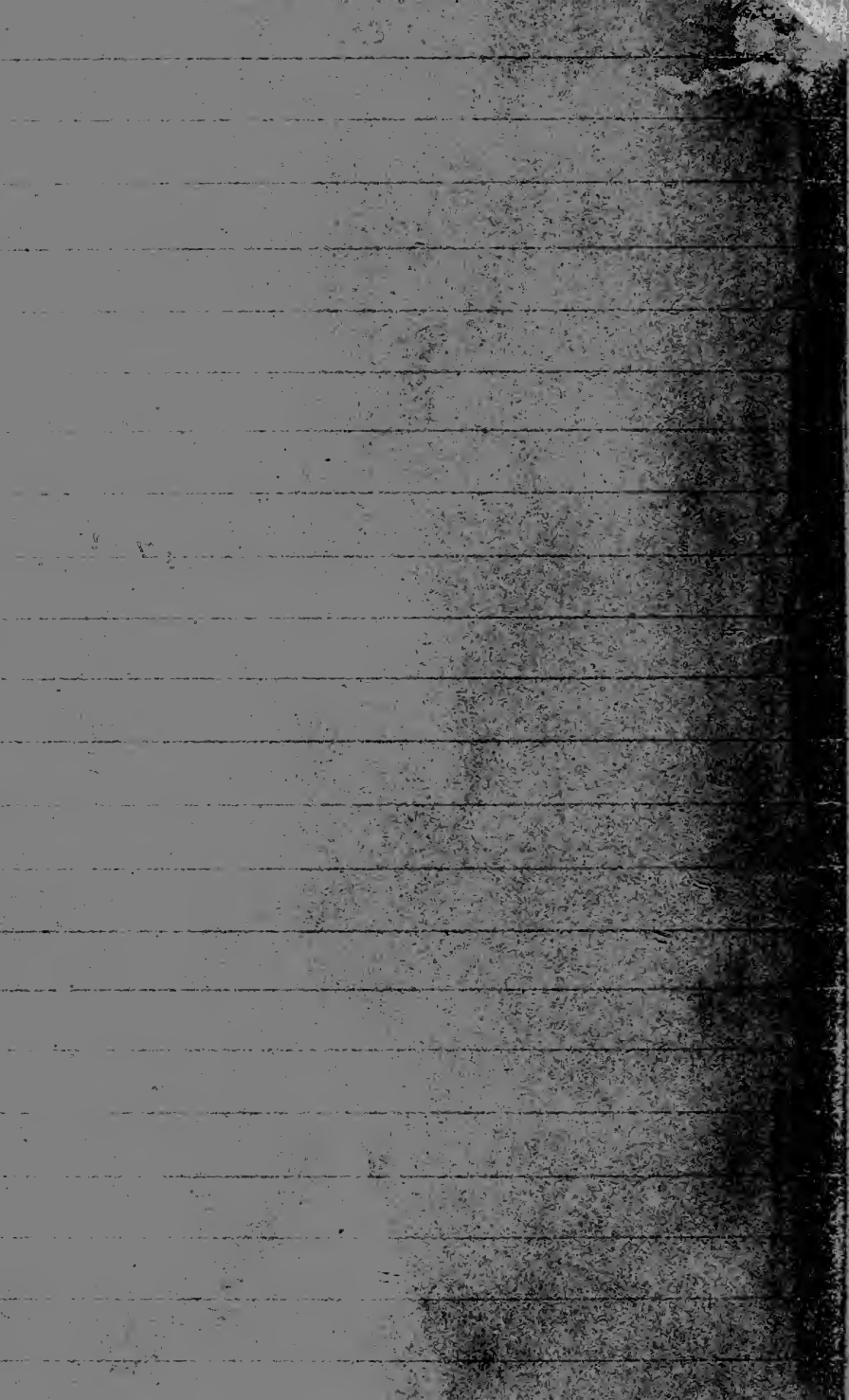
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# S P E E C H E S

OF

THE RIGHT HONOURABLE

SIR ROBERT PEEL, BART.

IN

THE HOUSE OF COMMONS,

MAY 6TH AND 20TH, 1844,

$\frac{65712}{25/5/15}$

ON THE

RENEWAL OF THE BANK CHARTER,

AND THE STATE OF THE LAW RESPECTING

CURRENCY AND BANKING.

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LONDON:

JOHN MURRAY, ALBEMARLE STREET.

1844.

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# SPEECHES,

&c.

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MAY 6. 1844.

SIR R. PEEL rose, and addressing Mr. Greene, who was in the chair, said—Sir, there are occasionally questions of such vast and manifest importance, and which prefer such a claim, I should rather say such a demand, on the attention of the House, that all rhetorical prefaces, dilating on their magnitude or enjoining the duty of patient consideration, are superfluous and impertinent. I shall, therefore, proceed at once to call the attention of this committee to a matter which enters into every transaction of which money forms a part. There is no contract, public or private,—no engagement, national or individual, which is unaffected by it. The enterprises of commerce, the profits of trade, the arrangements made in all the domestic relations of society, the wages of labour, pecuniary transactions of the highest amount and of the lowest, the payment of the national debt, the provision for the national expen-

diture, the command which the coin of the smallest denomination has over the necessities of life, are all affected by the decision to which we may come on that great question which I am about to submit to the consideration of the committee.

The circumstances under which the duty imposed on me arises are shortly these : — In the year 1833, an act of Parliament passed which continued to the Bank of England certain privileges until the year 1855, and after the year 1855 until Parliament should determine to give one year's notice to the Bank of its determination to revise the charter. Before, however, the expiration of the full period of twenty-one years, before the arrival of that term of 1855, there was reserved to Parliament the power, after the lapse of ten years, by notice to be given to the Bank, of revising the charter and reconsidering this whole subject. That period will arrive in August next. After August next it will be competent to this House, by notice given through the Speaker, to intimate to the Bank that within six months next following this House will reconsider the charter of the Bank of England. If that opportunity be let pass, the charter of the Bank and all the privileges it confers will endure until the year 1855.

In the present state of this country — in the present state of the currency — after the inquiries which have been instituted, after the degree to which public attention has been called to this subject, her Majesty's government feel it to be their duty to avail themselves of the opportunity thus given to them by law, and to consider the revision of the charter of



the Bank. They are of opinion, that inquiry has been exhausted — that all the information which is essential to the formation of a satisfactory judgment has been collected, and that it is incumbent on the ministers of the crown to submit to the decision of Parliament the measures which in their opinion it may be fitting to adopt.

Sir, I am perfectly satisfied that the members of this House, rising superior to all party considerations, and to all private interests, will consider it their duty to apply their deliberate and impartial consideration to this great subject. I have that confidence in the House of Commons, from past experience of their superiority to mere party views and personal interests where matters of such paramount importance come under review, that I feel assured such will be the course they will pursue on this occasion. I ask you to-night for no decision. I would even deprecate the expression of opinion. I ask you to listen to the proposals I shall make — to hear the evidence and arguments by which they shall be supported — to read and consider the resolutions which I shall move, *pro formâ*; and, after having deliberated maturely on the subject, hereafter to pronounce a cool and impartial judgment upon it.

Sir, I am not shaken in the confidence I repose in the House by publications I have seen, inviting the attendance of members on this occasion. I hold in my hand the resolutions adopted at a meeting of the General Committee of Private Country Bankers on the 17th April last. They are to this effect: “That the refusal of Government to give information on

the subject of their measure concerning banks and issue, naturally leads to the conclusion that it is their intention to propose some measure affecting country banks generally, and this meeting considers it most probable that it relates to the local circulation of the country.” “That under these circumstances it is most desirable that the banks of issue, whether private or joint-stock banks, should unite to oppose any alteration in the local circulation of the country, or in the conditions on which it is now allowed by law ; and that the several joint-stock banks and banks of issue throughout the united kingdom be invited to co-operate with the private bankers in such opposition.” The third resolution is, “That all bankers be requested, as far as possible, to bring the question fully under the consideration of all members of Parliament with whom they may be acquainted or connected, and endeavour to induce them to oppose any such alterations in the local circulation of the country.” Sir, I complain not of these resolutions. I complain not, at least, that the bankers have invited members of Parliament to attend in their place and consider this subject ; but I do hope that members of Parliament will resist the subsequent appeal, and that they will not come here determined beforehand to oppose any alteration in the existing law which may be proposed for their consideration. Are you so satisfied with the existing state of things,—are you so convinced that it is utterly impossible in any particular to suggest alteration, that you will come prepared, before hearing the discussion on the subject, to offer, after pre-

vious concert and understanding, an insuperable obstacle to any amendment of the existing law? I know that to be impossible. I hold in my hand the proof of evils flowing from the present state of the law, which should make it impossible that any such previous compact and understanding, if entered into, could be fulfilled.

My immediate proposition relates to banking concerns, and to the issue of promissory notes; but, considering that ten years have now elapsed since this subject was brought under consideration, I hope I shall be excused if I take a wider range than the immediate questions for decision might seem to justify, and if I advert at the outset to the great principles which govern, or ought to govern, the measure of value, and the medium of exchange. They lie, in truth, at the very foundation of our discussion. We cannot hope to agree on the measure to be adopted with regard to paper currency, unless we are agreed on the principles which determine the value of that of which paper is the representative, and on the nature of the obligation which is imposed upon the issuer of promissory notes. Now I fear there is not a general agreement on those fundamental principles—that there is still a very material difference of opinion as to the real nature and character of the measure of value in this country.

My first question, therefore, is, what constitutes this measure of value? What is the signification of that word “a pound,” with which we are all familiar? What is the engagement to pay a “pound?” Unless we are agreed on the answer

to these questions, it is in vain we attempt to legislate on the subject. If a "pound" is a mere visionary abstraction, a something which does not exist either in law or in practice, in that case one class of measures relating to paper currency may be adopted ; but if the word "pound," the common denomination of value, signifies something more than a mere fiction — if a "pound" means a quantity of the precious metals of certain weight and certain fineness,—if that be the definition of a "pound," in that case another class of measures relating to paper currency will be requisite. Now, the whole foundation of the proposal I am about to make rests upon the assumption that according to practice, according to law, according to the ancient monetary policy of this country, that which is implied by the word "pound" is a certain definite quantity of gold with a mark upon it to determine its weight and fineness, and that the engagement to pay a pound means nothing, and can mean nothing else, than the promise to pay to the holder, when he demands it, that definite quantity of gold. What is the meaning of the "pound" according to the ancient monetary policy of this country? The origin of the term was this : — In the reign of William the Conqueror a pound weight of silver was also the pound of account. The "pound" represented both the weight of metal and the denomination of money. By subsequent debasements of the currency a great alteration was made, not in the name, but in the intrinsic value of the pound sterling, and it was not until a late period of the reign of Queen Elizabeth that silver, being then the standard of value,

received that determinate weight which it retained without variation, with constant refusals to debase the standard of silver, until the year 1816, when gold became the exclusive standard of value. The standard of silver was fixed about 1567; but in 1717, the value of the guinea was determined to be 21s., and for a certain period, both gold and silver constituted the mixed standard of value. In the year 1774, it being then enacted that no legal contract should be discharged in silver for any sum of more than 25*l.*, gold became substantially the measure of value, and so it continued to be legally and practically until 1797, when that fatal measure for restricting cash payments by the Bank was passed, and parties were enabled to issue at their discretion paper money not convertible into coin at the will of the bearer. From 1797 to 1810 public attention was not much directed to this important subject; but in 1810 men of sagacity observed that the exchanges had been for a considerable period unfavourable to this country — more unfavourable than could be accounted for by the balance of trade or the monetary transactions of the country. A committee was appointed to inquire into the subject, and opinions, not really novel, but at that time very startling, were enounced, to the effect that the “pound” meant, in fact, nothing else than a definite quantity of the precious metals, and that those who promised to pay a pound ought to pay that quantity. That theory was very much contested at the time. The House of Commons was not convinced by the arguments used in favour of it. The public mind, confused by the practice that had pre-

vailed since the issue of inconvertible paper, would not admit the doctrine of a metallic standard. Those who contested it were, however, called upon to give their definition of the pound sterling, and it must be admitted that they responded to the call. They did not evade the question, as is now the practice, by writing long and unintelligible pamphlets, but, confident in their own theories, gave, in brief and compendious forms, their definitions of the standard of value.

One writer said, "that a pound might be defined to be a sense of value in reference to currency as compared with commodities." Another writer was dissatisfied with that definition, thinking the public had a right to something more definite and tangible, and that the meaning of "a reference to currency as compared with commodities," was not very obvious to enlightened minds. This writer said, "There is a standard and there is an unit which is the measure of value, and that unit is the interest of 33*l.* 6*s.* 8*d.* at three per cent., that being 1*l.*, and being paid in a bank-note as money of account." The last definition of the standard of value which I shall quote is this: "The standard is neither gold nor silver, but it is something set up in the imagination, to be regulated by public opinion." Such were the absurdities into which ingenious men were betrayed, in the attempt to set up some other standard of value, more consistent with inconvertible paper than a metallic standard.

It was supposed at that time that the doctrines propounded by the Bullion Committee were the

visionary speculations of theorists, and were unknown in the former monetary history of this country. But that is not the case. Refer to every writer of eminence—to Mr. Locke, to Sir W. Petty, to any one who wrote before 1797, and who had not been familiar with inconvertible paper currency, and you will find they arrive at precisely the same conclusions with the Bullion Committee. Take the opinion of Mr. Harris, an officer of the Mint, and an eminent writer on the subject a century before the Bank Restriction Act.

“In all countries,” says Mr. Harris, “there is established a certain standard both as to weight and fineness of the several species of those coins.

“In England, the silver monies are to contain 111 parts of fine silver, and 6 parts of alloy. That is, the pound troy with us contains 11 oz. 2 pennyweights of fine silver, and 18 pennyweights of alloy; and of a pound troy of this standard silver, our money pound contains  $\frac{20}{62}$  parts, that is to say, a pound of this silver is coined into 62s. This standard has continued invariable ever since the 43 Eliz.”

“By the standard of money is always meant the quantity of pure or fine metal contained in a given sum. In England accounts are kept by the pound sterling, which is a certain quantity of fine silver appointed by law for a standard.” (He was writing at a time when silver was the standard in England.)

“All payments abroad are regulated by the course of exchange, and that is founded upon the intrinsic value, and not on the mere names of coins.

“We may break the public faith here, and curtail the

long-established measure of property, but foreigners will make ample allowance for what we may do, and however we may rob and cheat one another, will secure themselves, and make an advantage of our discredit, by bringing the exchange against us beyond the par."

These are the true doctrines as to the measure of value, doctrines delivered one hundred years before the Report of the Bullion Committee was made, but in precise conformity with that Report. The truth of them is not, I fear, even now admitted. Publications daily issue from the press contesting it. Here is a volume published at Birmingham since the commencement of the present year, not the production, I presume, of a single author, for it professes to be written by Gemini. I have no wish to withhold justice from writers who give that proof of their sincerity, which is implied by the publication of an octavo volume. And I admit at once that I do not believe this work could have proceeded from any other town in the Queen's dominions than Birmingham, and that the efforts of no single writer are equal to the production of so much nonsense. This volume collects and repeats all the old exploded fallacies on the subject of the standard of value and the currency. Its authors bewail the darkness of the age which adheres to a standard which was adopted in the reign of Queen Elizabeth, and which they consider wholly unsuitable as a measure of value now, considering the extent of our commerce, and the increase of all pecuniary transactions in number and amount. They might with equal justice complain, that, since



travelling has been increased by the completion of railways, the foot measure is still adhered to. There is no better reason for making the sovereign pass for twenty-five shillings instead of twenty, than for making the foot consist of sixteen inches instead of twelve.

They consider it absurd, that, with the progress we have made in wealth and knowledge, we should still coin the ounce of gold into a sum represented by 3*l.* 17*s.* 10½*d.* “Coin the ounce of gold,” say they, “into 5*l.*, and we shall then have relief from our burdens, and encouragement to industry and trade.” Now, let us consider what is meant by affixing to the ounce of gold a value, represented in coin by the sum of 3*l.* 17*s.* 10½*d.*? According to the regulations of the Mint, before the alteration of the silver coin in 1816, a pound weight of standard gold was coined into 44½ guineas; a pound weight of standard silver was coined into 62*s.*; and a guinea was made current for 21*s.* We are thus enabled to calculate the relative value of gold and silver according to the Mint regulations. The sum of 44½ guineas in gold, that is, a pound of gold, was equivalent to 1869 sixpences in silver, and the pound of silver being equal to 124 sixpences in coin, the value of gold was to that of silver, as 1869 to 124, or, as  $15\frac{9}{124}$  to 1. The ounce of gold in coin was equivalent to the corresponding amount in silver, namely, the twelfth part of 1869 sixpences, that is to say, to 155 sixpences and  $\frac{9}{12}$  of a shilling, or 3*l.* 17*s.* 10½*d.* There was indeed a small difference in the amount of alloy in a pound of coined gold and a pound of coined silver,

for which it is necessary to make allowance, and that allowance being made, the relative value of pure gold to pure silver in the coins of the two metals was as  $15 \frac{2859}{13460}$  to 1.

Silver has ceased to be a standard of value, and the silver coin being now a mere token, the former relative value of gold coin to silver coin is not now preserved.

The above calculations explain our meaning when we say that the ounce of gold is coined into the sum of 3*l.* 17*s.* 10 $\frac{1}{2}$ *d.* These terms express the relation of gold and silver coin, according to the Mint regulations, at the time that silver coin was made of standard silver.

You may now enact, no doubt, that the ounce of gold shall be coined into five pounds in money of account, that is to say, you may debase the standard to that extent. And what will be the effect of this? All debtors will no doubt gain by it. In the case of all unfulfilled contracts, he who has to receive payment will receive much less in point of real value than he stipulated for. The creditor will be defrauded—the debtor will have a corresponding advantage. But this will be the whole effect. No new transaction will be affected by your choosing to call an ounce of gold five pounds. As Mr. Harris says, you may cheat each other at home, but foreign countries will adjust their dealings with you not on account of the name to be given to your coin, but according to its real value. All new contracts at home will be regulated by the same principles. The real and not the nominal value of that which is made by law the medium of

exchange, will regulate prices and all future contracts. Even the relative value of gold and silver will not be adjusted by your laws. You may insist on coining the ounce of gold into 5*l.* instead of 3*l.* 17*s.* 10½*d.*, that is to say, into 200 sixpences instead of, as at present, into 155 sixpences and fourpence halfpenny, but silver will disobey your law, and will insist on finding its own value in the market on principles which you cannot control.

The Mint regulations do not, it is true, correctly express the present relative value of gold and silver in the bullion market. Silver is not worth 5*s.* 2*d.* an ounce, not more, I believe, than 5*s.* an ounce, and there would be an apparent present advantage to the debtor in taking silver rather than gold as the standard, since the relative value of gold to silver when standard-silver is 5*s.* per ounce, is as 15·575 to 1, instead of  $15 \cdot \frac{285}{1346}$  to 1. But there is reason to doubt whether those who wish for a relaxation of the standard, and who, for the purpose of benefiting the debtor, recommend either a joint standard of silver and gold, or the substitution of silver for gold as the standard, would attain their object were either of those measures adopted. There is reason to believe, advertent particularly to the rapid increase of the annual supply of gold from mines within the dominions of the Emperor of Russia, that the value of gold in the general markets of the world is on the decrease, and that the interest of the debtor would not be permanently advanced by the abandonment of gold for silver as the standard of value in the country.

But to revert to the errors of those who are the advocates of some measure of value other than the

precious metals. They object to the selection of gold as the standard of value, because gold is an article of commerce, — because there is a demand for it as bullion, affecting, therefore, its value as coin, and disqualifying it to be the measure of value. Now, no one contends that there is or can be an absolutely fixed and invariable standard of value. No one denies that the value of gold, with reference to all commodities, excepting gold itself, may be subject to slight variations. But what other substance is not more subject to variations in value than the precious metals? What other substance possessing intrinsic value will not also be in demand as an article of commerce? It is because gold is an article of commerce, because there are no restrictions upon its export or its import, that you can at all times depend upon such a supply of gold for the purposes of coin as may be sufficient for the wants of this country. The precious metals are distributed among the various countries of the world in proportion to their respective necessities, by laws of certain though not very obvious operation, which, without our interference, will allot to our share all that we require. Some entertain the apprehension that we may be drained of all our gold in consequence of a demand for gold from foreign countries, either for the payment of their armies in time of war, or in consequence of sudden and unforeseen demand for foreign corn for our own internal consumption. It is supposed that gold, being an article in universal demand, and having at all times and in all places an ascertained value, is more subject to exportation than any thing else. But the export

of gold, whether coin or bullion, is governed by precisely the same laws by which the export of any other article is governed. Gold will not leave this country unless gold be dearer in some other country than it is in this. It will not leave this country, merely because it is gold, nor while there is any article of our produce or manufacture which can be exported in exchange for foreign produce with a more profitable return. If gold coin be in any country the common medium of exchange; or if the promissory notes, which perform in part the functions of gold coin, are at all times and under all circumstances of equal value with gold, and are instantly convertible into gold; there are causes in operation which, without any interference on our part, will confine within known and just limits the extent to which gold can be exported. There may no doubt be temporary pressure from the export of gold, even when it is confined within those limits; but none for which you may not provide, none to which you would not be subject, in a higher degree probably, were any other standard of value adopted in preference to gold.

I have thus stated the grounds which justify the conclusion, that, according to the ancient monetary policy of the country, according to the law, according to the practice that prevailed at all times, excepting during the period of inconvertible paper currency, a certain quantity of the precious metals, definite in point of weight and fineness, has constituted, and ought to constitute, the measure of value. The minds of men, habituated during the Bank Restriction

tion to a departure from that measure of value, were loth to admit those great elementary truths which are at the foundation of the whole system of currency, paper credit, and foreign exchange. Ingenious writers have from time to time laboured to prove the unsoundness of these doctrines, to show that a metallic standard was neither practically nor theoretically the measure of value in this country, and have cited various facts apparently irreconcilable with the theory. But when all the circumstances attending each fact have been fully stated, they have been sufficient to account for the seeming contradiction. When Sir Isaac Newton had established the planetary system on the principle of gravitation and attraction, there were phenomena apparently at variance with the theory. But succeeding philosophers, starting from the point which in the progress of science had been reached by Sir Isaac Newton, applying his principles with improved means of investigating truth, solved the doubts which he had not been able to solve, and showed that the apparent contradictions, when all the disturbing influences were taken into account, became in fact new demonstrations of the soundness of the original theory. And the same result has followed, and will follow, in the case of objections which have been, and will continue to be, urged against the principle of the metallic standard.

It must at the same time be admitted that it would be quite consistent with that principle to adopt some other measure of value than that which we have adopted. It would be consistent with that principle to select silver instead of gold as the standard, — to

have a mixed standard of gold and silver, the relative values of the two metals being determined, — to dispense with gold coin altogether, and regulate the amount and value of paper currency by making it convertible only, according to the proposal of Mr. Ricardo, into gold bullion of a given minimum amount.

I trust, however, this House will adhere to the present standard, — will resolve on the maintenance of a single standard, and of gold as that standard. All the great writers on this subject, Sir William Petty, Mr. Locke, Mr. Harris, and Lord Liverpool, have been decidedly in favour of a single, in preference to a double, standard. Mr. Locke, indeed, was of opinion that silver ought to be the standard ; but there appears good ground to doubt the soundness of that opinion ; and there are, at any rate, the most cogent reasons, since gold has been for a long course of years the standard in this country, for the continued maintenance of it. They are well stated in the admirable Treatise on Coins written by the first Lord Liverpool. In that treatise a system of coinage is recommended, which is in exact conformity, both in point of principle and detail, with the system which we have adopted. Lord Liverpool observes :—

“ After full consideration of this extensive, abstruse, and intricate subject, I humbly offer to your Majesty, as the result of my opinion,

“ 1st. That the coins of this realm, which are to be the principal measure of property and instrument of commerce, should be made of one metal only.

“ 2dly. That in this kingdom the gold coins only

have been for many years past, and are now, in the practice and opinion of the people, the principal measure of property and instrument of commerce.

“ It has been shown that, in a country like Great Britain, so distinguished for its affluence and for the extent of its commercial connections, the gold coins are best adapted to be the principal measure of property ; in this kingdom, therefore, the gold coin is now the principal measure of property and standard coin, or, as it were, the sovereign archetype by which the weight and value of all other coins should be regulated.

“ It is the measure of almost all contracts and bargains ; and by it, as a measure, the price of all commodities bought and sold is adjusted and ascertained. For these reasons the gold coin should be made as perfect and kept as perfect as possible.

“ 3dly. It is evident, that where the function of the gold coins as a measure of property ceases, there that of the silver coins should begin ; and that where the function of the silver coins, in this respect, ceases, there that of copper should begin : it is clear, therefore, that so far only these silver and copper coins should be made legal tender and no further, at least not in any great degree ; and it follows that the coins, both of silver and copper, are subordinate, subservient, and merely representative coins ; and must take their value with reference to the gold coins according to the rate which the sovereign sets upon each of them.”



These are, in fact, the principles which regulate our present coinage. We have a single standard, and that standard, gold,—the metal which was practically the standard for many years previously to the suspension of cash payment. The silver coin is a mere token, auxiliary and subordinate to the gold coin; the ounce of silver being now coined into 66s. instead of 62s., and silver coin not being a legal tender for any greater sum than 40s.

By the abolition, in this part of the United Kingdom, of the promissory notes below 5*l.*, you introduce the gold coin into general use for the purpose of effecting small payments; you enable the holder of the smallest note to demand payment in gold, and thus insure the maintenance of a very considerable quantity of gold as a part of the circulating medium. There is, no doubt, some expense in the maintenance of a metallic circulation, but none, in my opinion, sufficient to countervail the advantage of having gold coin generally distributed throughout the country, accessible to all, and the foundation of paper credit and currency.

It is contended by some, that if you were to dispense with coin altogether, to adopt the principle of Mr. Ricardo's plan, and make bank notes not convertible into gold at the will of the holder, excepting when presented to the amount of a very considerable sum (300*l.* or 400*l.* for instance), and then convertible into bullion and not coin, you would provide a security against the effects of a panic connected with political causes, causing a sudden demand for gold. I very much doubt the policy of taking such pre-

cautions against such a contingency, and consider that the most effectual measure for promoting permanent confidence in the paper circulation of the country, is to require that the gold coin shall be in general use for small payments, and that the promissory note shall be of equal value with the coin which it professes to represent.

I shall here close my observations on the measure of value and the coinage, and proceed to the more immediate subject for consideration, namely, the state of the paper circulation of the country, and the principles which ought to regulate it.

I must state, at the outset, that in using the word money, I mean to designate by that word the coin of the realm, and promissory notes payable to bearer on demand. In using the words paper currency, I mean only such promissory notes. I do not include in those terms bills of exchange, or drafts on bankers, or other forms of paper credit. I will not weary the House with a discussion as to the precise nature of deposits, and whether they constitute a part of the currency of the country. There is a material distinction, in my opinion, between the character of a promissory note payable to bearer on demand, and other forms of paper credit, and between the effects which they respectively produce upon the prices of commodities and upon the exchanges. The one answers all the purposes of money, passes from hand to hand without endorsement, without examination, if there be no suspicion of forgery : and it is in fact, what its designations imply it to be, currency or circulating medium. I do not deny that other forms

of paper credit have some effects in common with Bank notes, that they all have a tendency to economise the use of metallic money, and have a common influence on the value of gold to the extent to which they dispense with the use of it, and thus leave a larger quantity available for the general purposes of the world than there would otherwise be. But I think experience shows that the paper currency, that is, the promissory notes payable to bearer on demand, stands in a certain relation to the gold coin and the foreign exchange in which other forms of paper credit do not stand. There are striking examples of this adduced in the Report of the Bullion Committee of 1810, in the case both of the Bank of England, and of the Irish and Scotch Banks.

In the case of the Bank of England, shortly after its establishment there was a material depreciation of paper in consequence of its excessive issue. The notes of the Bank of England were at a discount of 17 per cent. There was no doubt as to the solvency of the Bank, for bank stock, on which 60 per cent had been paid, was selling at 110 per cent. After trying various expedients, it was at length determined to reduce the amount of bank notes outstanding. The consequence was an immediate increase in the value of those which remained in circulation, the restoration of them to par, and a corresponding improvement in the foreign exchanges.

In the case of Ireland, in the year 1804 the exchange with England was very unfavourable. A committee was appointed to consider the causes. It

was denied by most of the witnesses from Ireland that they were at all connected with excessive issues of Irish notes. It was then stoutly maintained—as it was afterwards in 1810—that “notes issued only in proportion to the demand in exchange for good and convertible securities, payable at specific periods, could not tend to any excess in circulation, or to any depreciation.” In the spring of 1804, the exchange of Ireland with England was so unfavourable that it required 118*l.* 10*s.* of the notes of the Bank of Ireland to purchase 100*l.* of the notes of the Bank of England. Between the year 1804 and the year 1806 the notes of the Bank of Ireland were reduced from 3,000,000*l.* to 2,410,000*l.*, and the effect of this, taken in conjunction with an increase of the English circulation, was to restore the relative value of Irish paper and the exchange with England to par.

In the same manner, an unfavourable state of the exchange between Scotland and England has been more than once corrected by a contraction of the paper circulation of Scotland.

In all these cases the action has been upon that part of the paper credit of the country which has consisted of promissory notes payable to the bearer on demand. There has been no interference with other forms of paper credit, nor was it contended then, as it is now contended by some, that promissory notes are identical in their nature with bills of exchange, and with checks on bankers, and with deposits, and that they cannot be dealt with on any separate principle.

There is a passage in the work to which I have

before referred, the treatise of Lord Liverpool, which draws the just distinction between paper credit and paper currency, and exposes the fallacy of those who deprecate any attempt to regulate by law the paper currency, on the ground that it is not distinguishable in its nature from paper credit.

Lord Liverpool observes : “ It has been a common artifice, practised by those who have written on paper currency, to confound paper credit with paper currency ; and even the higher sorts of paper currency with the inferior sorts, such as immediately interfere with the use of the coins of the realm. Paper credit is not only highly convenient and beneficial, but is even absolutely necessary in carrying on the trade of a great commercial kingdom.”

“ Paper currency is a very undefined term, as used by speculative writers. To find arguments in its support, at least to the extent to which it is at present carried, they have been obliged to connect it with paper credit ; so that the principles on which the use of paper credit is truly founded, may be brought in support of a great emission of paper currency. Paper currency, strictly speaking, consists only of bills or notes payable or convertible into cash on demand by the person who issued the same at the will of the holder.”

That appears to me to be the true definition of paper currency, as distinguished from paper credit. It is the substitute for, and immediate representative of coin, and with coin it constitutes “ money.” And if you will adhere to the standard of value, and will adopt such measures as shall ensure the uniform

equivalency of Bank notes to coin, you may safely, in my opinion, leave untouched other forms of paper credit, and entrust the regulation and control of them to individual caution and discretion.

There are some, however, who admit the validity of this distinction, and yet contend that no new legislative interference is required in the case of promissory notes. In their opinion the true principles which should govern the issue of such notes are, freedom of competition, and immediate convertibility into coin at the will of the holder. The combination of these principles will, in their opinion afford to the public a complete security against abuse of the privilege of issue.

In support of that opinion they have, undoubtedly, the high authority of Adam Smith and of Ricardo. Both these eminent writers assume that immediate convertibility into coin is all that is requisite to prevent the excessive issue of paper. It is no impeachment of their sagacity, if, in the progress which this science, like all other sciences, is making, there be reason to doubt the soundness of any particular opinion which they may have delivered. And it is our duty to disregard their authority, and to act on the conclusions of our own judgment, if either reason or experience convinces us that they are safer guides.

It appears to me that we have, from reasoning, from experience, from the admissions made by the issuers of paper money, abundant ground for the conclusion, that, under a system of unlimited competition, although it be controlled by convertibility into

coin, there is not an adequate security against the excessive issue of promissory notes.

We should infer, certainly, from reasoning, that free competition in the supply of any given article will probably ensure us the most abundant supply of that article at the cheapest rate. But we do not want an abundant supply of cheap promissory paper. We want only a certain quantity of paper, not, indeed, fixed and definite in nominal amount, but just such a quantity of paper, and that only, as shall be equivalent in point of value to the coin which it represents. If the paper be cheaper than the coin, it is an evil and not an advantage. That system, therefore, which provides a constant supply of paper equal in value to coin, and so varying in amount as to insure at all times immediate convertibility into coin, together with perfect confidence in the solvency of the issuers of paper, is the system which ought to be preferred. Now, unless the issuers of paper conform to certain principles, unless they vigilantly observe the causes which influence the influx or efflux of coin, and regulate their issues of paper accordingly, there is danger that the value of the paper will not correspond with the value of coin. The difference may not be immediately perceived, — nay, the first effect of undue issue, by increasing prices, may be to encourage further issues; and as each issuer, where there is unlimited competition, feels the inutility of individual efforts of contraction, the evil proceeds, until the disparity between gold and paper becomes manifest, confidence in the paper is shaken, and it becomes necessary to restore its value by sudden and violent

reductions in its amount, spreading ruin among the issuers of paper, and deranging the whole monetary transactions of the country.

If we admit the principle of a metallic standard, and admit that the paper currency ought to be regulated by immediate reference to the foreign exchanges, — that there ought to be early contractions of paper on the efflux of gold, — we might, I think, infer from reasoning, without the aid of experience, that an unlimited competition in respect to issue will not afford a security for the proper regulation of the paper currency.

Let us now refer to the admissions made by those who are the advocates for unlimited competition. Several country bankers were examined by the select committee, and their evidence is important : it demonstrates the absence of that controlling check upon issue which ought to be applied, if the principles for which I contend are just. Mr. Hobhouse, a banker in the south-west of England, (a brother of the Right Hon. Baronet the Member for Nottingham,) who spoke with some authority from his having been Chairman of the Committee of Private Bankers, and their selected organ, was examined before the Committee. What account did he give of the issues of private bankers? He was asked — “With a rise of prices, would there be an increased paper issue by country bankers?” He answered — “Yes, there will be an increase in the local circulation when prices rise. Gold is a commodity, of which there may be a glut as well as a scarcity ; and I could never see any reason to be-



frightened at an export or drain of gold." He was then asked — "Ought not there to be a contraction of the circulation under such circumstances?" He answers — "Whether there ought or ought not, I cannot tell; but I am sure that, in fact, there could not be. I am perfectly satisfied that it is quite impossible for these local currencies to be influenced by the price of gold or the foreign exchanges." He is then asked — "Does it not often happen that your circulation is increased in the beginning of a drain of gold?" He answers — "Yes: we do not pretend that our circulation is at all governed by it. It is governed by what I have stated already." Another witness examined was Mr. Stuckey. He was asked this question — "Supposing it should be ultimately thought that it is desirable that the country circulation should have a general conformity to the state of the foreign exchanges; do you conceive that this could, in any way, be effected by the country bankers?" He answers — "I do not at present see how it could be accomplished; and I may take the liberty of going further in answer to that question, and saying that it appears to me that the country issues, as conducted in the West of England, have very little or nothing to do with foreign exchanges."

Now, the effect of this evidence is, to prove that country banks do not and cannot control their issues according to the state of the foreign exchanges. The amount of their issues is governed by prices, rather than by a reference to the exchange. When speculation is active, and prices rise, that is to say, at the very time at which a check may most probably be required

on the increased issues of the country banks, their activity is stimulated. Just at the period when the warning is given, so far from that warning being attended to, there is increased action in the opposite direction. Prices are rising. The country bankers have no control over their currency. The increase of price compels increase of issue, and thus there is going on at the same time the reciprocal action of increased speculation, and an additional stimulus given to that speculation by increased issues. The first witness from whose evidence I quoted, when asked whether the circulation of country banks was governed, as that of the Bank of England was, by the state of the exchanges, fairly admitted that it was not. He was asked, "Do you not mean that when a drain of gold was beginning, that was the time when frequently the circulation of the country banks was increased?" The answer of Mr. Hobhouse is,— "Yes; there is an increase at the beginning of a drain of gold, and the circulation is not governed by it." The fact is, there is no sense of individual responsibility: each issuer says, and says naturally enough, "It is in vain for me, individually, to contract my issues, when others will not do the same. I shall suffer by doing so. My efforts will produce no effect on the aggregate, while some competitor will take that share of the circulation which I may withdraw." And thus, each refusing to make the individual sacrifice, (which, indeed, is useless where only made individually,) the crisis comes,—there is a demand for gold which cannot be satisfied, and the end of all is, much individual suffering and many

fortunes ruined, from the necessity of a sudden and violent effort to establish, by the contraction of issue, an equilibrium between gold and paper. Thus it appears to me that the conclusions of reason against unlimited competition of issue, are amply confirmed by the admissions of the advocates for it.

Are the lessons of experience at variance with the conclusions we are entitled to draw from reason and from evidence? What has been the result of unlimited competition in the United States? In the United States the paper circulation was supplied, not by private bankers, but by Joint Stock Banks established on principles apparently the most satisfactory. There was every precaution taken against insolvency; unlimited responsibility of partners — excellent regulations for the publication and audit of accounts — immediate convertibility of paper into gold. If the principle of unlimited competition, controlled by such checks, be safe, why has it utterly failed in the United States? How can it be shown that the experiment was not fairly made in that country? Observe this fact. While there existed a central Bank (the United States Bank), standing in some such relation to the other Banks of the United States as the Bank of England stands to the Banks of the country, there was some degree (imperfect it is true) of control over the general issues of paper. But when the privileges of the Central Bank ceased, when the principle of free competition was left unchecked, then came, notwithstanding professed convertibility, immoderate issues of paper, extravagant speculation, and the natural consequences, suspension of cash payments and com-

plete insolvency. Hence I conclude that reason, evidence, and experience combine to demonstrate the impolicy and danger of unlimited competition in the issue of paper.

I have now stated—with respect to the measure of value, with respect to the coinage and currency—and with respect to promissory notes payable on demand—the broad and general principles which I think ought to regulate these three great elements of our monetary system. I have done on this occasion what I have done on others. I have stated, without the slightest compromise or concealment, the leading principles to which, in my opinion, our legislation in those matters ought to conform. I have now to state the extent to which I propose to carry out those principles. If I do not carry them out immediately to their full and entire extent, I may be told, as I have been told before, that very good principles have been laid down in the abstract, but that practically I shrink from their application. Nevertheless, the opinion which I have formerly expressed I still entertain—that it is of great importance that public men should acknowledge the great principles by which important measures should be regulated: and, in discussing a question of such magnitude as the present, I had rather it were said, “You fall short in the application of sound and admitted principles,” than that “You have concealed or perverted those principles for the purpose of justifying your limited application of them.” In addressing the House on this important subject, I have, in the first instance, stated principles which I deem to be correct, and which ought to be the rule and

guide of our future legislation. I have now to consider, with the same unreservedness, how far the consideration due to special circumstances, to existing interests, to the usages and habits of the community, demands caution and limitation in the immediate application of those principles. All I can promise is, that I will propose no practical measure which is inconsistent with the principles which I have laid down, and which does not tend to their ultimate establishment. It is, however, most important that those who are responsible for the management of the affairs of a great country like this — seeing how easy it is, by unwise legislation, to create panic or introduce confusion into the monetary transactions of the country — it is most important that they should deal considerably with private interests: first, because justice requires it; and, secondly, because there is danger that the cause of progressive amendment and reform will be injured, if you cannot reconcile reform with a due regard to the welfare and happiness of individuals.

In what mode then, admitting the principles I have announced to be correct, in what mode shall we best provide for the present application and ultimate establishment of them, with the least disturbance of existing interest? Some have contended, and I am not prepared to deny the position, that if we had a new state of society to deal with, the wisest plan would be, to claim for the state the exclusive privilege of the issue of promissory notes, as we have claimed for it the exclusive privilege of coinage. They consider that the state is

entitled to the whole profits to be derived from that which is the representative of coin, and that if the state had the exclusive power of issuing paper, there would be established a controlling power which would insure, as far as possible, an equilibrium in the currency. At the same time there have been men, whose judgment is also entitled to weight, who have expressed a different opinion on this subject. This question was under the consideration of the House when Lord Althorp brought forward the Bank Charter Bill, in 1833. It had also been the subject of consideration in the select committee of 1832; and Lord Althorp, in moving the extension of the Bank charter, discussed the policy of a single bank of issue to be constituted by and responsible to the Government. Having mentioned the name of Lord Althorp, I must, though I differ from that noble lord in respect to politics, bear testimony to his integrity, and to the soundness of his judgment in all financial matters. No man who ever filled the office which the noble lord then held is entitled to stand higher in public estimation as respects those qualifications for a public trust. On the occasion to which I have just referred, Lord Althorp said:—“Another point for consideration is, whether the profits, which must necessarily be derived from the circulating medium of the country, should be possessed by Government, or should be allowed to remain in private hands? Now, Sir, the advantages, the only advantages, which I have been enabled to discover in a Government bank, as compared with a private company, are those which result from having responsible persons to manage the

concern, the public deriving the benefit of it ; but then, on the other hand, I think these advantages are much more than counterbalanced by the political evils which would inevitably result from placing this bank under the control of the Government. I think that the effect of the State having the complete control of the circulating medium in its own hands would be most mischievous. Under these circumstances, Sir, I certainly am prepared to propose the continuation of a single bank of issue in the metropolis, subject to the control of the publicity of their accounts. If we were now, for the first time, establishing a system of banking on which the country should proceed, I think this would be the most advisable mode of establishing a bank in the metropolis. But, Sir, this proposition has the additional advantage—and it is no mean one—that it will occasion the least change ; because I certainly am of opinion that, unless some great advantages could be derived from a change in the monetary system of this country, nothing could be more ill-advised—nothing could be more useless, than to depart from it.” In the latter part of Lord Althorp’s observations I entirely agree. The true policy in this country is to work, so far as it be possible, with the instruments you have ready for your hand—to avail yourselves of that advantage which they possess from having been in use, from being familiar, from constituting a part of the habits and usages of society. They will probably work more smoothly than perfectly novel instruments of greater theoretical perfection. If we disturb that

which is established, let us have some good practical reason for the change.

It is now incumbent on me to detail and explain the practical measures which I propose for the regulation of the currency. I will state them consecutively, and without intermediate comment, in order that the House may be in full possession of the plan recommended by the Government.

We think it of great importance to increase the controlling power of a single bank of issue. We think it the wisest course to select the Bank of England as that controlling and central body, rather than to appoint commissioners acting under the authority of Parliament for the purpose of the issue of a paper currency. I therefore propose, with respect to the Bank of England, that it should continue in possession of its present privileges of issue, but that there should be a complete separation of the business of banking from that of issue; that there should be a department of issue separate from the department of banking, with separate officers and separate accounts. I propose that to the issue department should be transferred the whole amount of bullion now in the possession of the Bank, and that the issue of bank notes should hereafter take place on two foundations, and two foundations only:—first, on a definite amount of public securities; secondly, exclusively upon bullion. The action of the public will regulate the amount of that portion of the note circulation which is issued upon bullion.

With respect to the banking business of the Bank, I propose that it should be governed on precisely the



same principles as would regulate any other Body dealing with Bank of England notes. The fixed amount of securities on which I propose that the Bank of England should issue notes, is 14,000,000*l.*, the whole of the remainder of the circulation to be issued exclusively on the foundation of bullion. I propose that there should be a complete periodical publication of the accounts of the Bank of England, both of the banking and issue department. Objections were urged in 1833, to frequent publications of these accounts; but, in my opinion, those objections are without foundation. I have the strongest impression that nothing will more conduce to the credit of the Bank itself, and to the prevention of needless alarm, than the complete and immediate disclosure of its transactions. I would, therefore, propose to enact by law that there should be returned to the Government a weekly account of the issue of notes by the Bank of England, of the amount of bullion, of the amount of deposits, of securities, in short, a general summary of every transaction both in the issue department and the banking department of the Bank of England; and that the Government should forthwith publish unreservedly, and weekly, the account which they receive from the Bank.

It is desirable, in order to make the whole plan more clearly understood, that I should now state the regulations we propose to establish with respect to other banking establishments, and afterwards, that I should revert to the subject of the Bank of England, and state the terms which we have made with the Bank, subject to the ratification of Parliament. Our

general rule is, to draw a distinction between the privilege of issue and the conduct of the ordinary banking business. We think they stand on an entirely different footing. We think that the privilege of issue is one which may be fairly and justly controlled by the state, and that the banking business, as distinguished from issue, is a matter in respect to which there cannot be too unlimited and unrestricted a competition. The principle of competition, though unsafe in our opinion when applied to issue, ought, we think, to govern the business of banking. After the issue of paper currency has once taken place, it is then important that the public should be enabled to obtain the use of that issue on as favourable terms as possible.

With regard to banks in England and Wales other than the bank of England, we propose, that from this time, no new bank of issue should be constituted. I have stated that our object is to effect the change we contemplate, with as little detriment as possible to individual interests. We, therefore, do not propose to deprive existing banking establishments, which are now actually banks of issue, of the privilege they possess. We do not wish to raise that alarm which we fear would be excited, if there should be any sudden extinction of the power of issue now possessed by these banking establishments. Leaving, therefore, to the existing banks, which are actually banks of issue, their privilege of issue, we subject them to the condition that they shall not exceed the existing amount of their issue; this amount to be determined by the average issue of each bank for a

definite preceding period, of two or three years for instance. The Bank of England will thus be acquainted with the extent of the issue from all other establishments. I know I am liable to be told that the issues of these banks may be much larger, under particular circumstances and at particular periods, than at others : but I have obtained returns, of a confidential nature, from ten of the best-conducted banks in the country, six of them being in agricultural, and four in manufacturing, districts; and the amount of their variation of issue is much less than might be imagined. If, however, there should at any time be a demand for an increased issue, there would always be the ready means of supplying it ; as the banks may, by investing a portion of their capital in public securities, command a given amount of Bank of England notes by the sale of such securities, and, with those notes, may supply any occasional demand for increased local issues.

While we thus restrain the issue of promissory notes, we intend to facilitate the banking business. Many of the Joint-Stock Banking Companies have not at present the privilege of suing and being sued. There are two descriptions of Joint-Stock Banks ; those constituted under the act of 1826, and those established under the act of 1833. The time has come when you must determine whether you will permit and encourage the system of Joint-Stock Banks, or extinguish it. If you determine to retain the system, then you ought to give the banks every facility for the transaction of their business. The Joint-Stock Banks ask for the privilege of suing and being sued ; but this privilege, if granted, is a pri-

vilege not only to them, but to the public, who will have readier means of procuring redress in case of wrong.

Proceeding on the principle of facilitating banking operations, we propose to amend the existing law in other particulars. The place whence legal notice may be issued by Joint-Stock Banks, or where it may be served, is at present imperfectly defined. Again, the Joint-Stock Banks are bound by the acts of an unauthorised partner, it being the principle of partnerships that the acts of one bind the rest of the partners. But in the case of Joint-Stock Banks with a very large proprietary, there are no means of controlling the admission of individual partners. The purchase of a share constitutes a partner. We propose, therefore, to exempt the company from liability on account of the unauthorised acts of a simple partner; still making the company responsible for the unauthorised acts of a director of the bank. The appointment to be a director implies choice, and the confidence of the electing body; and this distinction between liability for the acts of a director and that for a simple partner is therefore a just one.

The chief complaint of the Joint-Stock Banks in London is, that they cannot accept bills for a less date than six months. Other private banking establishments in London have an unlimited power of acceptance, but Joint-Stock Banks labour under the prohibition I have mentioned. This was insisted on by the Bank of England, when the last charter was discussed, in order that the Joint-Stock Banks should not come into competition with that establishment

and the London private banks, by being allowed the power of acceptance for a less date than six months.

We propose to place the Joint-Stock Banks in London on a perfect equality in this respect, and to give them the power of accepting bills of any amount and for any period. It is thought by some that this privilege might be so perverted as to give rise to a paper currency differing in form, but not in principle, from promissory notes. The power has been held by private banks from time immemorial, and it has not hitherto been accompanied by any abuse; and why should it be anticipated that Joint-Stock Banks would abuse a similar power, contrary to the intentions of the Legislature? But I give public notice, that, if the power should be abused, — if it should be attempted to circulate small bills, so accepted, within the limits reserved to the Bank, — I shall not hesitate to appeal to Parliament on the instant, for the purpose of correcting that evil.

These, then, are the facilities we propose to extend to the Joint-Stock Banks. I will now mention the conditions or restrictions we propose to apply to all existing banks. In the first place, we require of all such banks, that there be a full and complete periodical publication of the names of all partners and directors. This is what the London and Westminster Bank voluntarily publishes. It is said that the public have a great security against loss, in the fact, that each partner is liable to the extent of his whole fortune for the debts of the bank to which he belongs. Very well. Let the public then know who the partners are. Let us

know the transfers of shares that take place ; let us determine how long the responsibility for the possession of shares will attach to a party ; as we have the comfort of unlimited responsibility, give us the names of those who are our guarantees. There is another condition we have a right to insist upon. We are to continue to existing banks the privilege of issue. Let us know the amount of the issues. We are going to demand from the Bank of England a weekly account of issues, and any bank exercising the privilege of issue ought to make a similar publication. If a bank objects to the condition of publication, it can absolve itself from it by issuing only Bank of England paper.

It is said that the weekly publication of issues will disclose secrets of which a rival may take advantage ; that it will show " the weak point." Now I wish " the weak point" (if there be one) to be shown, and that the public may have the advantage of knowing it. It is said erroneous inferences will be drawn from weekly publication ; that the issues at one time will appear large, and at another comparatively small. But the frequency of publication will enlighten the public mind on these points, and will dispel the erroneous impressions to which ignorance or the attempt at concealment gives rise.

Having required the publication of their issues from all banks to which the privilege of issue is continued, I do not propose to carry further the demand for publicity. I do not wish to pry into the affairs of each bank, and above all, I deprecate the taking of delusive securities against mismanagement and abuse.

The public will hereafter know the names of the persons by whom banking business is to be conducted, and the public must rely on their own caution and discretion as a security against being injured or defrauded. It has been frequently proposed to require from each bank a periodical publication of its liabilities, its assets, and the state of its transactions generally. But I have seen no form of account which would be at all satisfactory — no form of account which might not be rendered by a bank on the very verge of insolvency, if there were the intention to conceal a desperate state of affairs. The return for instance of “*overdrawn accounts*” might lead to very erroneous inferences as to the condition of a bank making such a return. A large amount of overdrawn accounts might in one case be indicative of gross mismanagement. It might in another case be perfectly compatible with the security of a bank, acting on the Scotch principle, and making advances at interest to customers in whom the bank had entire confidence.

It has been proposed by some that the shares of Joint-stock Banks should be prohibited below a certain minimum ; that there should be no shares of amounts less than 100*l.* or 50*l.*, or some fixed amount. But as, under the encouragement of the Legislature, banks have been established with 20*l.* and 10*l.* shares, and now exist, and, I believe, in many cases, have conducted their business satisfactorily, it would be harsh to insist on a sudden alteration in the amount of shares in the case of existing banks.

Then, again, as to calling on all existing banks to

invest a portion of their capital in Government securities, I have considered this maturely : but I see great difficulty in the way of forcing upon existing banks any compulsory arrangement of this nature, little prospect of any additional security from loss.

As to future companies, we have a right to make what regulations we please, and to adopt as to them what we may deem a better principle for their establishment. We propose, then, that no new Joint-stock Bank of deposit (of course it cannot be one of issue) shall be constituted except upon application to a department of the Government for this purpose ; that there shall be a registration of the prospectus, a certain amount of paid-up capital, and a limitation as to the nominal amount of each share. We propose also to require that the deed of settlement should be drawn up according to a prescribed form. The deeds at present are drawn up according to no fixed form, and there is great difficulty in ascertaining, by a reference to the deeds of settlement, from their complexity and want of uniformity, what are the powers and liabilities of banks, and what are the regulations under which they act. We expect that new banks will be constituted, conforming to the principles we thus establish ; issuing, if they are banks of issue, the paper of the Bank of England, and by their conformity to those principles establishing claims upon the public confidence. They may, no doubt, interfere with the business and profits of existing banks ; but we exclude no existing bank from the power of adapting the new regulations to its own concerns, and we consider that species of interference,



which arises, not from vexatious intermeddling with the affairs of an existing bank, but from a purification and improvement of the system of banking, to be perfectly legitimate.

Having thus stated the proposed regulations as to other banks, I now revert to the position of the Bank of England, and the relation in which it is to stand to the Government. I interrupted my statement as to the Bank, because I can make our proposed relations to the Bank more intelligible by having first described the regulations applicable to other banking establishments. I have stated that the issues of the Bank are to be upon bullion and upon a fixed amount of securities. We propose that 14,000,000*l.* should be that amount of securities. Seeing no advantage in a change, we propose to continue upon the present terms the existing loan of 11,000,000*l.* made by the Bank to the Government, at 3 per cent. This debt of the Government to the Bank is to be assigned as part of the security on which the issues of the Bank are to take place. There will then remain 3,000,000*l.* of additional securities, Exchequer bills or other securities, over which the Bank are to have entire control. We propose that the Bank should have a right, in case of necessity, to limit its issues upon that portion of the securities, viz. 3,000,000*l.* Circumstances might possibly arise in which the Bank might find it necessary to restrict its issues within the amount of 14,000,000*l.* In that case the Bank will have full power to diminish the 3,000,000*l.* of securities which are to be deposited in addition to the 11,000,000*l.* of debt assigned.

I can hardly conceive a case in which it would be advisable to limit the issues to less than 11,000,000*l*.

I have said that the Bank shall be restricted from issuing notes upon securities to any greater extent than 14,000,000*l*. This restriction applies, however, to ordinary circumstances and the present state of the affairs of the Bank. The case may occur in which it would be reasonable, and indeed might be necessary, that there should be an increase in the issues of the Bank upon securities. Suppose the country circulation to amount to 8,000,000*l*., and of this amount 2,000,000*l*. to be withdrawn, either in consequence of the failure of banks, or in consequence of agreements with the Bank of England to issue Bank of England paper—in that case, in order to supply the void, it may be necessary that the Bank should make an increased issue. A part of this issue may fairly be made upon securities. Our proposal is, that the profit to be derived from such an issue shall be placed to the account of the government; and that no increased issue upon securities shall take place without a communication from the Bank to the government, and without the express sanction of three members of the government—the First Lord of the Treasury, the Chancellor of the Exchequer, and the President of the Board of Trade. We do not contemplate, and do not intend to provide for, an increased issue upon securities in any other case than that to which I have referred, namely, the supply of a void caused by the withdrawal of some considerable portion of the existing country circulation.

Let me here advert to an enactment which passed

when the Bank charter was last continued, which passes by the name of the Legal Tender Clause. It enabled other banks than the Bank of England to pay their notes in notes of the Bank of England, and thus relieved them from the obligation of paying in coin. I opposed this clause at the time, considering it to be at variance with the principle of immediate convertibility. I do not now propose to repeal it, seeing that it has been in operation for several years, and that it may facilitate the substitution of Bank of England notes for the notes of other banks. It may serve to increase the controlling influence of the Bank, and to habituate the public to the use of its notes. The consequences either of the continuance or of the repeal of the clause are probably less than is generally supposed.

I will now detail the pecuniary engagements made with the Bank upon the part of Government. The Bank is to retain the privilege of issuing notes on securities to the amount of 14,000,000*l.* On an interest of 3 per cent., the gross gains of the Bank upon this total of issue would be 420,000*l.* In estimating the net profits, we must consider the deductions to be made. First, what is the cost of the issue? The Bank, for the sake of the public, conducts its issue on a liberal principle. It does not re-issue notes; it provides the means of keeping every note issued within ten years; it gives therefore great facilities to the public in the detection of fraud or the tracing of transactions within that period. The total cost to the Bank, on an issue of 20,000,000*l.*, has been estimated (by the committee of 1833) at

117,000*l.*, but I am inclined to estimate it at about 113,000*l.*, which, taken from 420,000*l.*, leaves 303,000*l.*? There is then to be deducted about 60,000*l.* composition with the Stamp-office, for the privilege of issuing notes. There is also about 24,000*l.* paid by the Bank to those bankers who undertake to issue Bank of England notes, receiving a commission of 1 per cent. The result is, after subtracting these items, that there would be a net profit of 220,000*l.* derived from the issuing of notes. What is the sum we are to claim from the Bank for continued privileges? The Bank think we ought to make a material deduction from the sum fixed when the Charter was last renewed and paid at present, namely, 120,000*l.* But though in some respects we affect the peculiar privileges of the Bank, we give to the Bank increased control over the paper currency, and increased stability to their banking business. We have, therefore, insisted on an equal payment in future. We have, of course, had negotiations on the subject; and I must, in justice to the gentlemen who have conducted it on the part of the Bank (the Governor and Deputy-Governor), declare that I never saw men influenced by more disinterested or more public-spirited motives than they have evinced throughout our communications with them. They have reconciled their duties as managers of a great institution, bound to consult the interests of the proprietors, with enlightened and comprehensive views of the public interests. I hope the House will feel that, in the resolutions which I intend to propose, there is nothing to which the Bank

and the country ought not to accede with readiness. Hitherto the Bank of England has been accustomed to pay to the Government a sum of 120,000*l*. I now propose that the Bank should, in addition to that sum, pay once for all 60,000*l*., being the amount of fixed annual composition for the issue of its notes, which will bring the entire amount to a sum of 180,000*l*., to be paid annually by the Bank. The net profit of the Bank, to be derived from the issue of notes, will probably not exceed the sum of 100,000*l*.

The House will no doubt bear in mind that the Public pay to the Bank an annual sum of 248,000*l*., under the provisions of certain acts of Parliament, on account of the management, by the Bank, of the Public Debt. From this payment of 248,000*l*. will hereafter be deducted 180,000*l*., leaving the total payment of the Public to the Bank, on the balance of the two accounts, a sum of 68,000*l*.

As to the duration of the charter, we propose that it should be renewed for a period of twenty-one years, with a power of revision by Parliament at the expiration of ten years. We propose, however, a departure from the arrangement made when the charter was last renewed, in the following respects. Under the existing charter, the power to revise accrues at the expiration of ten years; but, if the opportunity be not then taken advantage of, the charter will endure without alteration for a further period of eleven years. We propose that at any time, after the lapse of ten years, there shall be the power of revision; that Parliament, for instance, may permit

twelve or fifteen years to pass, and may then, should they think fit, revise the charter of the Bank and its relation to the Government.

Of Ireland and Scotland, I have hitherto made no mention ; I propose to reserve for separate legislation the state of the currency of each of those parts of the United Kingdom. The prohibition against the establishment of new banks of issue will extend to them. They, also, will be included in those enactments which will require the performance, for the future, of certain conditions preliminary to the formation of new Joint-Stock Banks. But I have thought it more prudent to deal, in the first instance, with the issue of promissory notes in England and Wales ; to establish certain principles for the regulation of that portion of the circulation ; and to leave Ireland and Scotland for future legislation, in respect to their paper currency. That currency stands on a different footing in each country, from that in which it stands in this part of the United Kingdom ; and the single measure I have to propose is so extensive, and affects such numerous and powerful interests, that I have been unwilling to encumber it with enactments requiring separate consideration, or to cloud the prospects of success by having to encounter too powerful a combination of opponents. It will be remembered that to banks in Ireland and Scotland the Law permits the issue of notes of a less value than five pounds, and that in Scotland there is no single bank partaking of the character of the Bank of England. In Ireland there is the Bank of Ireland, with privileges somewhat similar to the Bank of England ; but, on the whole,

the circumstances of the two countries are so far different, that I should be unwilling to propose any measure affecting the circulation either of Scotland or Ireland, without the opportunity of much more mature consideration than it has been in the power of the Government to give to this branch of the subject.

Permit me, before I conclude, briefly to recapitulate the outlines of the plan recommended by her Majesty's servants.

It is proposed that the Bank of England shall continue in possession of its present privileges, — that it shall retain the exclusive right of issue, within a district of which sixty-five miles from London as a centre is the radius. The private banks within that district, which now actually issue notes, will of course be permitted to continue their issues to the amount of the average of the last two years.

Two departments of the Bank will be constituted : one for the issue of notes, the other for the transaction of the ordinary business of banking. The bullion now in the possession of the Bank will be transferred to the issue department. The issue of notes will be restricted to an issue of 14,000,000*l.* upon securities, — the remainder being issued upon bullion, — and governed in amount by the fluctuations in the stock of bullion. If there be, under certain defined circumstances, an increase of the issues of securities, it can only take place with the knowledge and consent of the Government ; and the profit derivable from such issue will belong to the Public.

Bankers now actually enjoying the privilege of issue, will be allowed to continue their issues, pro-

vided the maximum in the case of each bank does not exceed the average of a certain prescribed period. A weekly publication of issues will be required from every bank of issue. The names of shareholders and partners in all banks will be registered and published.

No new bank of issue can be hereafter formed, and no joint-stock company for banking purposes can be established, except after application to the Government and compliance with various regulations which will be hereafter submitted to the consideration of Parliament.

I have now concluded the duty which I have to perform, and trust I have clearly explained to the House the principle and details of the plan which the Government proposes for the future regulation of the currency, and the grounds upon which it is founded. I ask for no vote to-night on the resolutions which I shall propose, *pro formâ*, and, if I might give advice on such a subject, would recommend the postponement of discussion to a future day. To-morrow the correspondence which has taken place with the Bank, explaining more in detail our communications with the Bank, and the nature of the pecuniary arrangements between the Bank and the Government, will be laid upon the table. The knowledge of that correspondence is important as a preliminary to full and satisfactory discussion on the merits of our proposal.

Considering the part which I took in the year 1819 in terminating the system of inconvertible paper currency, and in re establishing the ancient standard of



value, it will no doubt be a source of great personal satisfaction to me, if I shall now succeed, after the lapse of a quarter of a century since those measures were adopted, in obtaining the assent of the House to proposals which are, in fact, the complement of them, and which are calculated to guarantee their permanence, and to facilitate their practical operation. But my gratification will be of a higher and purer nature than any connected with the satisfaction of personal feelings, if I may look forward to the mitigation or termination of evils, such as those which have at various times afflicted the country in consequence of rapid fluctuation in the amount and value of the medium of exchange. When I call to mind the danger to which the Bank of England has been exposed, the various effects of a sudden change from an overabundant to a contracted circulation, the reckless speculations of some of the Joint-Stock Banks, the losses entailed on their shareholders, the insolvency of so many private banks, the miserable amount of the dividends which have in many cases been paid, the ruin inflicted on innocent creditors, the shock to public and private credit, then indeed I rejoice on public grounds in the hope, that the wisdom of Parliament will at length devise measures which shall inspire just confidence in the medium of exchange, shall put a check on improvident speculations, and shall ensure, so far as legislation can ensure, the just reward of industry, and the legitimate profit of commercial enterprise conducted with integrity and controlled by provident calculation.

SPEECH, MAY 20. 1844.

SIR R. PEEL moved the order of the day for the House going into committee on the Bank of England Charter Acts.

SIR R. PEEL said :—Sir, I should feel very unwilling to interpose any observations of mine before the commencement of the discussion on the resolutions which I am about to move, and would content myself with moving at present that the House do agree to those resolutions, if I did not think it would be for the convenience of many Members who are likely to take a part in the discussion, and for the benefit of the discussion itself, that I should make some explanations on particular points, with respect to which I think it probable that questions will be asked. I therefore think it better to anticipate many of those questions and give to them in a connected form the answers which I must give separately, if they are separately put. It was necessary, as the House will bear in mind, for Her Majesty's Government to frame their measure, and for me, as the organ of that Government, to make the statement which I submitted on the 6th of May, without the advantage of communicating with parties whose opinions on such a measure as that which we proposed were justly entitled to great weight. Entire secrecy, however, in all matters calculated to affect the currency, was absolutely

necessary; and, however much we might feel disposed to confide in the honour and integrity of many individuals, yet we thought it advisable to forego the advantage of private communications; and, having formed our opinion on the evidence taken by committees and on public documents within our control, to submit our views to Parliament.

If, after the public explanation of these views, and after the opportunity afforded to us of hearing the opinions of others, we had seen reason to modify our own, we should have no hesitation in doing so. But nothing has occurred during the interval which has elapsed which induces Her Majesty's Government to vary, in its leading principles, the plan announced by me on the 6th of May.

There are, however, points of detail, in respect to which I have explanations to give, and modifications to propose.

I will first refer to that part of the plan which concerns the Bank of England and its connexion with the Government. The House will no doubt recollect, that, when I proposed the plan on the 6th of May, I suggested to the House that it might be desirable that the Bank of England should make its issues upon securities and upon bullion,—partly on the one and partly on the other; that the amount of securities on which issues should be made should be limited to 14,000,000*l.*, and that the remainder of the issues of the Bank should take place on bullion alone, the amount of that additional circulation being subject to the influence of the exchanges. At the same time I foresaw a case in which it might be consistent with

the principle of the proposed measure, and in which it would be perfectly legitimate, that the Bank of England should add to its issue upon securities.

Assuming the circulation of the Joint-Stock Banks and of the country banks to be about 8,000,000*l.* at the present time, it is possible, either through the occasional failure of some of these establishments, or from the voluntary liquidation of their accounts, or in consequence of an agreement with the Bank of England, that some portion of their existing circulation may be discontinued. Suppose the country circulation to be 8,000,000*l.*, and that in consequence of voluntary agreements or other causes it should be diminished by one-half — to 4,000,000*l.* ; in that case it might be perfectly fit that the Bank of England, in order to supply the void thus created, should issue Bank of England notes, and that that issue should in part take place upon securities. I proposed, originally, that the Bank of England should not be permitted to increase its issues upon securities, except after communication made to the Government, and with the consent of three members of the Government — the First Lord of the Treasury, the Chancellor of the Exchequer, and the President of the Board of Trade. I did not reserve that power of increasing the issues upon securities from any distrust of the great principles which I laid down ; I did not propose that power of interference on the part of the Government in order to meet any possible, but unforeseen contingencies ; but in order to meet, *bonâ fide*, a particular case ; namely, the cessation of issue by banks other than the Bank of England. On consider-

ation of that part of the plan, I think it would be advisable, if possible, to prevent all direct interference in this matter on the part of the executive Government. At the same time I do not think it would be advisable to give to the Bank an absolute power by law to increase its circulation upon securities in every case of the withdrawal of country notes without exception. I can foresee cases wherein a void may be created in the country circulation, without a corresponding necessity for an increased issue upon securities. Take the case at present : the Bank is possessed of a great amount of bullion, not less than 16,000,000*l.* The banking department of the Bank of England will be possessed of not less than 30,000,000*l.* of bank-notes, 14,000,000*l.* issued on securities and 16,000,000*l.* on bullion ; a great proportion of these bank-notes will necessarily lie dormant in the coffers of the banking department, because it is not probable that more than 22,000,000*l.* can be made available for the supply of the legitimate demands of commerce. Supposing, then, a void to be created (in the county of Cornwall, for instance), a void of, say 200,000*l.*, by the withdrawal of country notes in circulation, I am not at all prepared to say that the Bank of England ought at once to increase its issue of notes upon securities. Why should not the country banks apply for some portion of the dormant notes in the Bank of England to supply this void, receiving from the Bank a per centage on the issue of Bank of England notes ? If it should be desirable to issue fresh notes on securities, then the Bank should have the means of issuing them ; but I do not think it

advisable that, under all circumstances, the supply of the void should be provided for by the increase of issue on securities. I propose to reconcile these two objects in a manner which appears to me unexceptionable, avoiding any direct interference on the part of the Executive. I propose in the preamble of the clause to recite distinctly what are the grounds which in the opinion of Parliament will justify an increased issue by the Bank on securities; these are, the failure of a country bank, the voluntary withdrawal by a country bank of its issues, or an undertaking by a country bank to abolish its own circulation upon the condition of being supplied with Bank of England notes. The recital of this in the preamble will manifest the intentions of Parliament. I propose, then, that the Bank, if it should desire to make an increased issue of notes upon securities, should not be allowed to do so except upon permission given by Her Majesty in council, such permission to be published immediately afterwards in the *London Gazette*. I prefer this course to giving the Bank an absolute power at its own unfettered discretion to increase its issue of notes upon securities. I am certain that, while the present management of the Bank continues, that power would not be unduly taken advantage of: but still it is advisable to guard against the possibility of abuse. I propose therefore not to permit the increase of securities except with the sanction of the Privy Council, and except, also, on the express condition that the amount of additional securities shall not exceed two-

thirds of the amount of issue, the remainder of the issue taking place upon bullion.

There is another point of great importance connected with the issues of the Bank of England to which I did not direct the attention of the House on the last occasion. The question is, what shall be the definition of "bullion" as the foundation of issue? Shall the Bank be required to issue notes upon gold coin or gold bullion alone? or shall the Bank be permitted to issue notes in exchange for silver as well as gold? Hitherto, silver has always been included in the return of bullion made by the Bank. "Bullion" includes not merely gold coin of our mint, but gold in bars, foreign gold coin, and also silver. Shall we restrict the issues that are to take place upon bullion exclusively to gold, or shall issues be permitted upon silver; and, if permitted, to what extent? A rigid adherence to principle would seem to require that gold alone should be the foundation of issue; that the amount of notes should fluctuate with the influx and efflux of gold. But I doubt whether we may not permit at least a partial issue of notes upon silver, without any departure from principle, and with great convenience to commerce. I propose, of course, to require that the obligation to pay notes in gold, and to issue notes in exchange for gold, shall remain in full force. The Bank must pay its notes in gold at the rate of 3*l.* 17*s.* 10½*d.*, and must issue notes in exchange for gold, receiving the gold, if it be bullion, at a certain estimated rate, so much less than 3*l.* 17*s.* 10½*d.* as shall be sufficient to cover the expense of coinage: the rate will pro-

bably be *3l. 17s. 9d.* per ounce. If an issue on silver be permitted, that issue must be with the voluntary consent of the party offering silver or receiving silver in exchange for notes. The reasons in favour of permitting the issue on silver with such consent are these : —

The facility of exporting silver in preference to gold, when such export is expedient, is the true remedy against the inconvenience of our standard differing from that of other countries ; and unless the circulation department is allowed to issue against silver, that inconvenience might occasionally be severely felt. So long as a silver standard is not recognised, and silver coin is used only as tokens under 40s., no quantity of silver likely to be in the Bank can affect the standard value of the gold sovereign ; but the sale of that silver may save useless coining of sovereigns, and answer the same purpose. Silver generally arrives from America, and latterly from China, in large amounts, and at pretty regular periods. If the Bank is restricted from purchasing that silver, it will always be bought by merchants, who will export it immediately, the principal demand being for the Continent. No capitalist will find it to his advantage to hold it, the variations in price seldom, if ever, compensating him for the loss of interest. When the exchange is low and the price of silver high, this export acts advantageously in liquidation of payments due to foreign countries ; but when the exchange is high and silver low, the silver will sell at a lower price than if the Bank were allowed to buy it, and it will be exported solely for the purpose



of bringing back gold, the expense of the export of the silver and the import of the gold being an actual loss on the transaction. The practice of the Bank has been to buy bar silver at 4s. 11 $\frac{1}{8}$ d., and dollars at 4s. 9 $\frac{1}{2}$ d., which at the French mint prices is equal to buying gold at 77s. 9d. When the exchanges have fallen, and there has been a demand for remittances to the Continent, the Bank has sold the silver, and such sale has answered all the purposes of gold, has left a small profit to the Bank, and saved the expense of exchanging silver for gold.

An unnecessary export of silver, that is, an export when it is not required to rectify the exchanges, causes a momentary rise in the exchange, which again falls back to its original rate so soon as the operation is ended. This momentary rise in the exchange, so long as it lasts, is prejudicial to all parties who may have to draw bills upon the Continent in payment for goods and other exports.

A stock of silver in the Bank is convenient to our trade, particularly with India and China. Merchants often require that metal as a remittance, and would have to send to the Continent for it at a greater expense if they did not find a supply at the Bank.

But if the Bank is absolutely restricted from the issue of notes upon silver, the stock of silver retained by the Bank will be a very limited one, as it will not answer the purpose of the Bank to purchase silver and hold it as a part of its assets in the banking department.

For these reasons, I am inclined to propose that the Bank shall have the power of issuing notes on the

deposits of silver. There should, I think, be a limit to the extent to which this issue shall be allowed. If we provide that the amount of silver on which issues may take place shall not exceed one fourth of the amount of gold—(for instance, if there be four millions issued upon gold, permitting an issue upon silver to the extent of one million)—we shall probably ensure the maintenance of such a stock of silver as may give facilities for rectifying the exchanges and supplying the demands of commerce, and incur no risk of infringing upon that principle which will impose a positive obligation upon the Bank to receive gold in exchange for notes, and to pay notes in gold coin on demand.

These are the only points on which I have any explanation to offer so far as the Bank of England is concerned.

I proceed to points connected with the affairs of Joint-Stock Banks and private banks. It is proposed that every bank now exercising, *bonâ fide*, the privilege of issue, or rather, I should say, which did exercise it on the 6th of May last, should be permitted to enjoy that privilege within certain limits; that in the case of each bank, the bank-officer should make up an account of the amount of issues for two years preceding the 6th of May, 1844, and that in each case the average amount of such issue should be the maximum of future issue. It is proposed that each bank shall make a return to the Stamp Office of its daily issues; that this return shall be made on some day in the week following, to be named by the Stamp Office, and that the average amount of issues

during the preceding week shall not exceed the maximum which the Bank is allowed to issue. Originally, it was proposed that the issue of no single day should exceed the maximum; but in order to prevent the attachment of penalties to an inadvertent excess of issue on some one particular day, it will be more convenient to take the average of the weekly issue, and to require that that average shall not exceed the maximum.

There are some cases in which, within the period of two years, there has been a union of banks, in which one bank has purchased the business of another bank — the goodwill of the concern; and in such a case, if we take the average amount of the issues of the surviving bank for two years, that might not be perfectly fair, because the present amount of united issue might greatly exceed the amount which would appear upon the average of the single bank for the period of two years. In the Bill, therefore, I shall provide for cases where there has been a union under contract and written agreement, upon that contract and written agreement being furnished to the Stamp Office. Our wish is, to reconcile the establishment of a great principle to existing interests, with as little danger and inconvenience as possible.

I have been asked what I propose with respect to branch banks — “May Joint-Stock Banks now in existence add to the number of their branches?” My answer is, They may: but they must not upon that account increase the maximum of their circulation. They may transfer business from an existing

branch to another branch hereafter to be constituted, but in no case must the transfer lead to an increase of the maximum of permitted circulation. We know the total maximum at present to be about 8,000,000*l*. That is about the amount of issue in England and Wales, calculated upon the average of the last two years; and we intend, as far as we can, to give to the Bank of England, which is to have controlling power over issues, the assurance that in no case can that aggregate amount be exceeded.

I have been asked this question — “Supposing there should be now two private banks with three partners each; will you object to the consolidation of those private banks, and the carrying on of the joint concern as one private bank with six partners? and what would be the amount of issue in that case to which the united bank would be entitled?” I do not propose to prevent such a consolidation; and I consider that the united bank should have the power of issuing an amount of notes equal to the aggregate amount of the two banks when separate.

In respect of branches, the law requires amendment. I doubt the policy which some banks have pursued of establishing very numerous branches. I doubt whether banks having fifty or sixty branches — some in very small towns, renting expensive houses, and appointing agents with considerable salaries — can derive profit from such a course. It is the great competition which exists, and the desire to monopolise the circulation, which has probably led to it. The law, however, offers no impediment :

it rather encourages the extension of branches, because the law requires the payment of duty for four branches, and no more : that is to say, a joint-stock bank taking out a licence for four branches has the power to establish an unlimited number without any further payment. Now we will not object to the establishment of new branches, but we propose to require payment for the licence for each new branch that may be established. I propose, therefore, if any bank establishes a new branch, that it shall be required to take out a fresh separate licence, the cost of which amounts to about 30/.

I have also been asked, “ Do we propose that joint-stock banks shall have the liberty to purchase up the right of the circulation of private banks ? ” We are willing, so long as the character of the institution is not changed, to admit the consolidation ; but we do not propose to permit a joint-stock bank to increase its circulation by purchasing the right of issue of a private bank.

I have been asked, again, “ Will you permit the substitution of partners ? will you allow the son to be placed in the position of his father ? ” I say, Certainly. We can give no guarantee as to the continuance of this privilege of issue. We think Parliament has a perfect right at any time, if the privilege be abused, to apply an immediate remedy. So long, however, as the present system exists, we advise the House not to attempt a vexatious and unnecessary interference with these concerns. We would therefore permit the substitution of the son for the father as a partner. We are of opinion, also, that to permit the

entrance of a new partner into a private bank may be advantageous to the public as well as to the bank itself. A wealthy man may be desirous to add his capital and his responsibility to the bank; and to such a course we oppose no objection. It is said, "Suppose the admission of new partners be carried to such an extent that the character of the partnership should be totally changed; suppose there be six new partners instead of the six old ones; will you permit this wholesale substitution?" We recommend that we should not make the attempt to prohibit it by law. Such a substitution may seem an abuse of the conceded privilege of issue; but we deprecate any thing like unnecessary and vexatious intermeddling. It would be easy to evade any enactment intended to prevent extensive substitution of partners.

There is an important stipulation which we propose to make with the Bank of England, and which we think to be just to other banks. Some of those banks have inquired whether we would permit the discontinuance of the arrangements made by them with the Bank of England for the issue of notes of the Bank of England, and the substitution of a corresponding amount of their own notes, thus increasing the issue of their own notes beyond the average of the two years. We do not propose to permit that exchange of notes. We do not propose that any bank, having entered into an arrangement with the Bank of England, shall be allowed to discontinue the Bank of England notes and to resume their own notes; but, if we refuse that to the private bank, we should give that private bank a guarantee that the Bank of England will grant the accommodation of Bank of England

notes upon as favourable terms as it was before held. We propose, with the full consent of the Bank of England, that any bank wishing to relinquish its connexion with the Bank of England may have the power of doing so ; but it shall not, in that case, be allowed to resume its own issues. If, on the other hand, it wishes to continue its connexion, the Bank of England shall be compelled to continue the supply of Bank of England notes upon terms not less disadvantageous than the present.

I must here advert to a change which the Bank is about to make in its arrangements in respect to the issue of Bank of England notes by other banks. These arrangements are at present of a twofold nature. Some banks are allowed by the Bank of England a commission of 1 per cent. on the amount of notes actually in circulation ; others are permitted, as an equivalent for a 1 per cent. commission, to open a discount account with the Bank, and to have bills discounted at 3 per cent. for an amount varying between certain prescribed limits. The Bank proposes to discontinue the discount account, and to act with respect to all banks on one uniform rule, making an allowance to each of 1 per cent. on the amount of Bank of England notes actually issued.

I do not think there is any other point of importance with respect to which I have explanation to offer ; and here, perhaps, I ought to close, and permit the House to proceed to discussion upon the resolutions. But I am told that my chain of argument the other night was incomplete ; that there was no necessary connexion between my premises

and my conclusions ; that I did not show the necessity of interfering with the circulation of joint-stock banks or country banks ; that I did not establish the policy of giving an increased control to the Bank of England over other banks. Now I am not conscious that any link in the chain of argument was wanting. I attempted to show that competition amongst the issuers of notes was a bad principle — that the same arguments which support competition in the supply of other articles did not apply to the supply of paper currency. I attempted to show that where there is an unlimited number of issues, there is no feeling of individual responsibility ; and that no man, whatever his desire might be, would sacrifice his interests for the public good, when he knew that his neighbours would not follow his example. I also attempted to show, from the admission of the representatives of issuing banks, that their practice was at variance with the principle which ought to regulate a paper currency ; that there was no reference to the exchanges ; that, as it was once said by a private banker, “there is no more regard to the exchanges than to the snow upon the mountains.”

I attempted to show, from the same admissions, that increased prices led to increased issues ; that there might, therefore, be a stimulus to speculation at the very time when there ought to be discouragement. I cited the example of the United States, for the purpose of proving that competition in issue, though controlled by unlimited responsibility of partners, and by the promised convertibility of paper into coin, was no security against insolvency of banks and general derangement of all monetary transactions.



If, however, there be any who consider the proof defective, who think sufficient ground has not been shown for checking the privilege of issue, and increasing the control of one central authority over the paper currency, I shall be glad to fortify my position by additional arguments. If the example of the United States be not admitted as a rule for us, I am quite content to look at home, and to examine the results of our own system on our own interests. I will endeavour to prove to your conviction, from the domestic experience of twenty years, that now is the time when, if you are wise, you will take security against the unlimited competition in issues, will increase the control of one superintending bank, and will prevent alternations and vicissitudes in that medium of exchange which is to regulate the value of every article in this country.

Let us review the several periods occurring within the last twenty years, when there has been a derangement in the monetary affairs of the country, and when in order to maintain the convertibility of paper into gold there has been the necessity for sudden contraction of issues. There have been, I think, four such periods — in 1825, in 1832, in 1835-36, and in 1838-39. Let us see in three of these periods what has been the action of the country banks.

In November, 1823, the bullion in the possession of the Bank was 13,760,000*l.*; in November, 1825, it was reduced to 3,012,000*l.* If the principle of a metallic standard and the doctrine as to the variation of paper with the state of the exchanges be

admitted, there ought to have been a considerable decrease in the amount of paper. But it is estimated that between November, 1823, and November, 1825, there was an increase in the amount of country bank paper of from 4,000,000*l.* to 8,000,000*l.*

Again, on the 1st of January, 1834, the bullion in the Bank of England amounted to 9,948,000*l.*; in 1837 it had suffered a diminution of about 6,000,000*l.*, being reduced to 4,071,000*l.*, while the country bank circulation had increased from 10,142,000*l.* in 1834, to 11,031,000*l.* in 1837, and in the middle of August, 1836, when you were at the very verge of the crisis the country bank circulation was actually 12,000,000*l.*

On the 26th of June, 1838, the bullion in the Bank was 9,722,000*l.*; in June, 1839, it was reduced to 4,344,000*l.*, and the country bank circulation, instead of being diminished, was again increased. It amounted to 11,740,000*l.* when the Bank had 10,000,000*l.* of gold, and it was increased to 12,725,000*l.*, when the Bank had only 4,300,000*l.* of bullion.

Surely these facts, taken in conjunction with the admissions of the country bankers as to the principles on which their issues are regulated, are decisive proofs of defects in our present system of currency.

I do not mean to say that country banks or joint-stock banks were alone responsible for the events that occurred at those periods. I do not defend the conduct of the Bank of England throughout the whole of those periods; but, assigning to the Bank its full share of the responsibility, there is abundant evidence that the principle of unlimited competition,

that the increase of issue with the increase of prices, that the unwillingness or the inability to regulate the issue of paper by a close observance of the state of the exchange, is fraught with danger.

I do not underrate the importance and value of the banking establishments of this country. They are most useful instruments for facilitating the distribution and profitable use of capital, according to the wants of the community, enabling those who require the temporary advance of capital to procure it on the most advantageous terms from those who can supply it. I do full justice to the integrity and high character of the great majority of those who are connected with these establishments. But if there be defects in the system on which they act, it is our duty to apply a remedy: if there has been an abuse of the privilege of issue; if great losses have been sustained by innocent parties, both as shareholders in joint-stock banks, as depositors, and as the holders of promissory notes of private banks, which have become insolvent—we are bound to take whatever precautions legislation can provide against the recurrence of such evils.

Can we review the history of private banks within the last thirty or forty years, and deny the necessity for legislative interference? In the years 1814, 1815, and 1816, the failures of country banks amounted in number to 240. The number of commissions of bankruptcy was 89. The lamentable occurrences of 1825 and 1826 must be fresh in the recollection of many of us. With regard to the last few years, a return has recently been laid before

the House, which demonstrates the necessity for legislative interference.

I hold in my hand a return of the number of private banks which became bankrupt in the years 1839, 1840, 1841, 1842, and 1843, with the amount of dividends paid, so far as the same can be ascertained. The following is the result : —

Year.	Number of Bankruptcies.	Of which were Banks of Issue.	Number that paid Dividends, and Amount of Dividends.
1839.	9	—	1 under 5s. 1 under 10s. 7 no dividend.
1840.	24	8	2 under 5s. 4 under 10s. 1 under 15s. 17 no dividend.
1841.	26	11	5 under 5s. 6 under 10s. 1 under 15s. 1 under 20s. 13 no dividend.
1842.	12	4	2 under 5s. 9 no dividend. 1 div. not ascertained.
1843.	11	6	2 under 5s. 1 under 10s. 1 under 15s. 1 under 20s. 6 div. not ascertained.

With respect to the bankers who have become bankrupts, I have before me returns furnished by the Bankruptcy Office, from which I have made extracts. They refer to failures which have taken place since the 1st of January, 1839, and give in some cases the amount of the assets, in others the causes of

failure. The failures to which these extracts apply were ten in number. The names of the concerns I do not mention.

*Estates of Bankers who have become Bankrupts, from the  
1st of January, 1839, to the 1st of April, 1844.*

CAUSE OF FAILURE.

In No.

1. Speculation in Spanish Bonds.
2. Banker a spirit merchant; the spirit trade was obliged to pay much more than its whole profits to the family of the banker's father, and acted as a drain upon the bank.
3. Advances to the partners, and bad speculations entered into by more than one of the partners.
4. Loss on Railway Speculations.
5. The Bank had been insolvent for many years. Loss by bad debts, 145,600*l*.
6. The banker succeeded to a considerable property, mortgaged his estate, overdrew his private account with the bank, issued promissory notes to the amount of 14,000*l*., bearing interest to depositors of small sums among the humble classes of society, 5,590*l*. of promissory notes payable to bearer on demand.
7. This bank had been insolvent for many years. Lost large sums in a sugar refinery, and 67,000*l*. in a commercial house at Glasgow.
8. Uncle and nephew, partners. In the course of eleven years the nephew dissipated 100,000*l*. of the partnership assets. The uncle died in 1838, leaving a large fortune among his relations. The nephew committed suicide in October, 1840, when the frauds were discovered.

ESTATES.

9. Liabilities 157,960*l*. Dividend none. Assets 20*l*.
10. Date of fiat 12th July, 1842. No dividend yet made. Bankrupt had certain race horses from which the sum of 750*l*. 5*s*. was netted.

Surely the conclusion we must draw from the details to which I have referred, both with respect to the frequent failures of banks, and the loss and suffering entailed upon their creditors, is in favour of legislative interference. It is said that the banks which failed were not in all cases banks of issue ; but I propose, not merely a check upon the privilege of issue, but an amendment of the law under which banks not being banks of issue are constituted. Should these measures receive the sanction of Parliament, they will not, in my opinion, limit the extent of legitimate accommodation which banks can afford to those who are engaged either in manufactures or in agriculture. I know that it is supposed by some that the issuing power of country banks is intimately connected with, and essential to, the maintenance of agricultural prosperity ; and that the paper of the Bank of England cannot be made to serve the purposes to which country paper is applied. Now let it be remembered, that in a very extensive district surrounding the metropolis, the circulation is in a great measure composed of Bank of England paper. In a circular area round London having a radius of sixty-five miles, the only competitors in issue with the Bank of England are certain private banks. That area includes a very extensive and important agricultural district. It includes the counties of Middlesex, Essex, Kent, Surrey, Hampshire, Oxfordshire, Hertfordshire, Buckinghamshire, Bedfordshire, Cambridgeshire, with a great part of Suffolk and of Northamptonshire. Now it appears, from the returns made to the Stamp-Office, that throughout this great agricultural district the total amount of the circulation of private banks is

only 1,329,000*l*. The whole of the remainder of the circulation is supplied by the Bank of England. In some also of the chief manufacturing districts of this country the paper of the Bank of England constitutes almost the exclusive medium of exchange. I mention these facts for the purpose of quieting the apprehension that such a restriction as that which I propose, upon the issues of country paper, will unduly lower the prices of agricultural produce, or diminish the legitimate accommodation which the dealers in capital and money can afford to the trader or the agriculturist.

It is said the Bank of England will not have the means which it has heretofore had of supporting public credit, and of affording assistance to the mercantile world in times of commercial difficulty. Now, in the first place, the means of supporting credit are not means exclusively possessed by banks. All who are possessed of unemployed capital, whether bankers or not, and who can gain an adequate return by the advance of capital, are enabled to afford, and do afford, that aid which it is supposed by some that banks alone are enabled to afford. In the second place, it may be a question whether there be any permanent advantage in the maintenance of private or public credit, unless the means of maintaining it are derived from the *bonâ fide* advance of capital, and not from a temporary increase of promissory notes issued for a special purpose.

Some apprehend that the proposed restrictions upon issue will diminish the power of the Bank to act with energy at the period of monetary crisis and commercial alarm and derangement. But the object

of the measure is to prevent (so far as legislation can prevent) the recurrence of those evils from which we suffered in 1825, 1836, and 1839. It is better to prevent the paroxysm than to excite it, and trust to desperate remedies for the means of recovery.

I now commit these measures to the consideration and judgment of the House. They will be thought by some to fall short in the practical application of the principles on which they are founded; by others, probably, to effect too hasty and extensive an alteration of the system which now exists. By the great majority of this House, I trust, they will be deemed a safe and just compromise between conflicting considerations, — reconciling the establishment of sound principles with a fair and liberal treatment of private interests.

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In answer to a question from Mr. Newdigate, Sir Robert Peel said, —

My Honourable Friend has put a question to me, which is important, because, although it was put briefly, yet it includes the chief objections which are felt by many to the measure which I propose; and I am anxious, both on that account, and from feelings of esteem for a young Member of this House, who will, I am sure, distinguish himself, to give an answer to it. The question of my Honourable Friend was this—“How far the extension of the principle of the Act of 1819, as carried out by the alteration of the system of issues, and by the re-organisation of banking establishments, taken together, as now proposed by the Government, will, by limiting the amount of cir-



culating medium and the facilities for circulation to the average of the last two years, without reference to the increase of production in this country, affect prices? For, if the quantity of commodities produced increase, and the amount of money remain the same, will not the price of commodities fall in proportion to the increase of their production?"

To this question my answer is, that the present measure is not an extension of the principle of the Act of 1819—it is the fulfilment and complement of that Act, but it does not carry the principle of a metallic standard farther than it was carried by the Act of 1819. That Act restored a metallic standard; it required that promissory notes should not be issued excepting on the condition that they were convertible into gold at the will of the bearer. They are issued on that condition. Under the system that exists, they may not for a time conform in value to gold—they may be issued in excess—they may be the means of affording a greater degree of temporary accommodation than could be afforded by a metallic currency—they may increase prices, and create for a time the appearance of prosperity. But they do all this with the certainty of ultimate reaction,—the certainty that the time must come when, if you adhere to a metallic standard, and if you maintain it unaltered, that standard will assert its supremacy, will refuse to conform to the value of paper, and will require that paper shall conform to the value of gold. When the depreciation of the paper is sensible,—when it becomes a matter of notoriety, the law enjoining its equivalency to coin will be enforced by every holder of paper, from the man whose whole property is a single five-pound note,

to the great capitalist who influences the foreign exchange by the extent of his dealings in money. The certain means of realising a small profit will impel every holder of paper to demand coin in exchange. What advantages will there have been in the temporary accommodation, what advantage in the temporary increase of prices, if they are to be followed—as I contend they inevitably will—by such a contraction of paper as will make it equal in value to coin?

Let us not confound that accommodation which is afforded by the liberal advance of capital, that increase of prices which springs from general prosperity and increased demand, with the accommodation and increase of prices which rest on no surer foundation than an undue issue of paper. I call it an undue issue, if its value do not conform with that of the coin which it professes to represent, and which the law has made the measure of value.

I have thus given to the question of my Honourable Friend that answer which I believe to be a satisfactory answer, provided you admit that there is, and that there ought to be, a metallic standard.

In answer to a question from Mr. Thomas Baring, Sir Robert Peel said—

I understand my Honourable Friend to imply a doubt as to the policy of that part of the plan which will limit the issue of the Bank upon securities to a gross amount, and will require that the profit of any issue upon securities that may be permitted, under certain circumstances, beyond that amount, shall belong to the public. My Honourable Friend asks, what

inducement will the Bank have to supply any void that may arise in the country circulation, since the Bank is to have no profit for an issue made for that purpose? I answer, in the first place, that we must assume that the Bank will feel an interest, apart from the mere consideration of pecuniary profit, in increasing its control over the general circulation, and thus diminishing the risk that the action of the Bank upon the exchanges, whenever such action is necessary, can be counteracted by other issuers of paper. In the second place, the Bank may protect itself from loss by supplying the void that may be created in the country circulation, and will thus have a direct pecuniary inducement to supply it. Suppose the notes of the Bank, issued for the circulation of the metropolitan district and for the general purposes of commerce, to amount to 22,000,000*l.*, and that the banking department has a supply of 6,000,000*l.* of notes lying dormant, received from the issue department in exchange for gold : suppose also 2,000,000*l.* of the country circulation to be withdrawn, and a demand therefore for an increased issue beyond the ordinary circulation of 22,000,000*l.* to arise : it would in that case be a source of profit to the Bank to supply the void from the stock of notes in the banking department, without requiring permission from the Queen in council, to increase its issues upon securities. Let us now take the case of there being no stock of unissued notes in the banking department, justifying the supply of the void from that department. The Bank would then have no alternative but to supply the void, with the consent of the Privy Council, by an issue upon securities beyond

the amount of 14,000,000*l.* The question is, what interest will the Bank have in seeking permission to make such an issue, as the profit will belong to the Government? I answer, that the Bank, by obtaining such permission, will protect itself from a loss to which it will be otherwise liable. According to the assumption, the void in the currency takes place and is not supplied by the Bank from its ordinary resources. The notes remaining in circulation will then become more valuable; there will be an influx of gold; and that gold will be tendered to the Bank, which must give notes in exchange for it. On that issue there would not only be no profit, but there would be an absolute loss, amounting to the charge of the manufacture and issue of the notes, which, in the case supposed, will fall upon the Bank. Should the increased issue take place upon securities, although the nett profit will belong to the public, yet the charges also, namely, the commission of one per cent. upon the issue, and the expense of the notes, must also be defrayed by the public; and it will be less disadvantageous to the Bank, under the circumstances supposed, to issue notes upon an increased amount of securities, than upon gold.

THE END.

HOW SHOULD AN INCOME TAX BE LEVIED?

CONSIDERED IN

A LETTER

TO

THE RIGHT HONOURABLE

BENJAMIN DISRAELI, M.P.

CHANCELLOR OF THE EXCHEQUER.

BY

JOHN GELLIBRAND HUBBARD, ESQ.



LONDON:

LONGMAN, BROWN, GREEN, AND LONGMANS.

1852.

H.M. 21

# A LETTER,

&c. &c.

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SIR,

AT the close of a protracted inquiry,  
“The Select Committee appointed to inquire into  
“the present Mode of Assessing and Collecting the  
“Income and Property Tax, and whether any other  
“Mode of Levying the same, so as to render the  
“Tax more equitable, can be adopted,” agreed upon  
your motion to the following resolution:—

“That, taking into consideration the importance  
“of the subject submitted to the Committee, the  
“state of the business before the House, and the  
“prospect of an early Prorogation of Parliament,  
“your Committee is of opinion that there is not  
“sufficient time for discussing and preparing a  
“Report that could do justice to this complicated  
“subject, and they therefore have agreed to report  
“the additional Evidence taken, together with the  
“Proceedings of the Committee, to the House.”

I need, I trust, no other apology than this resolu-

tion affords, for laying before you some remarks generally upon the principle of the Income Tax, and particularly upon points of interest on which evidence was given before the Committee.

I feel the more justified in this course, because I do not find that any of the witnesses have represented the subject, as a whole, in the light in which I think it should be viewed, and because it may promote the amendment of the present system to expose in familiar language its more crying evils, and to offer a simple remedy for their correction, in addition to the scientific, but technical and complicated schemes of the learned professional witnesses.

In raising by taxation the revenue of the country, these two principles should be observed :—

1. That such taxes be levied as present the fewest discouragements to the exercise of industry and to the accumulation of capital.
2. That taxes be so levied as not to affect unequally and unjustly the various classes and individual members of the community.

I shall refer subsequently to the first, but, for the present, I will trace the bearing of the second of these principles.

An equitable tax is one *which affects every man according to his means* ; and before suggesting any fresh method for estimating those means, it may be well to refer to past practice, and observe the rule which it involved.

During the twenty-five years of peace which



preceded 1842, the revenue was raised mainly by indirect taxation; *i. e.* by duties levied upon articles of consumption. It was contributed, therefore, by individuals in proportion to the consumption of which they defrayed the cost, either directly in their families, or indirectly through the labour they employed. In other words, a man contributed to the revenue in proportion to his expenditure.

There was much to recommend this system of taxation: it was paid without repugnance and almost unconsciously; it fell most heavily upon luxuries, from which it was in the power of most men to abstain; and, above all, it was just as between individuals: every man contributed according to his means practically exhibited in his expenditure. True, some men spent more than they could afford, while others spent less; but the penury of the miser compensated for the profusion of the spendthrift; the variations were the result of individual will, but the general use of indirect taxation involved the equitable rule of *taxing men according to their means,—defined and limited by their expenditure.*

I call your particular attention to this principle, because I shall refer to it hereafter.

But indirect taxation, while it operates with perfect fairness upon individuals, errs grievously against the first principle required in every system of taxation; when imposed upon articles of general con-

sumption, *it then does discourage and obstruct the exercise of industry.*

If the country had no commerce, if its industry were employed wholly on the preparation of material for domestic consumption, this objection might still be raised to indirect taxation, that it elevates the prices of articles of general consumption, and embarrasses production by the consequent higher rate of wages and the larger capital required; but the industry of this country is not confined to the production of articles of domestic use: a very large share of the productions of the country are sold in foreign markets, competing there with the whole world's industry; and in order to compete successfully, it is essential that British labour (the great element of cost in our exports) be maintained as cheaply as possible. It follows that taxes on articles of first necessity—raising their price—raising the wages of labour,—raising the cost of exportable commodities—seriously obstructs our foreign trade, and discourages the exercise of the industry it would engage.

In these considerations true principles of taxation and true principles of trade must concur; and I have often looked, but hitherto in vain, for a solution of the difficulty which our position as a commercial nation presents to the champions of protection. Their great ambition of protecting all classes—all interests—all persons,—in fact, of protecting every body against every body, resolves

itself under the favourable hypothesis of a non-trading country into loading all men with equal weights, skilfully per chance, and equitably apportioned, but in every instance oppressing the bearer, and impeding his progress in the race of industry. But how, when they have raised wheat to 70s. a quarter, and doubled the cost of subsistence, they will protect in the Brazilian market the industry of Manchester and Leeds against Swiss cottons and Belgian cloths, produced at half the cost in labour, remains a problem still unsolved.

It was, then, a wise policy which for the purpose of liberating and encouraging the industry of the country removed the taxes which elevated the price of articles of first necessity, and, to compensate for their abrogation, imposed a "Property and Income Tax." The defects of this tax are the subject of our present consideration.

The very title "*Property and Income Tax*" suggests the comment that it ought not to be at once a tax on income and a tax on the property which yields the income, and prompts the inquiry, to which should it be confined? Had it been desired to raise a large sum for a special emergency, a Property Tax would have been most appropriate, and so the loan of £15,000,000 for the abolition of slavery might have been fairly superseded by a levy of £15,000,000 upon the realized property of the country. But it was the purpose of Sir Robert Peel, concurrently with the imposition of his Property

and Income Tax, to remove or diminish the duty upon articles of consumption, so that, in fact, the relief upon Customs and Excise was the compensation for the new tax, and that tax should consequently have been an *Income Tax* levied upon all who participated in the advantages of the cheaper living.

Expenditure was relieved by one process; expenditure should have been taxed by the other.

But the change of the tax necessitates a change in the mode of collection. The revenue is to be levied no longer on the subject of expenditure, but on the means or fund available for expenditure (*i. e.* on income), with a strict adherence to the principle of making *expenditure* the limit of the measure of taxation.

The incomes of the community are derived from capital and labour, and may be divided into three classes.

1st, The interest, rent, or usufruct of capital.

2nd, The profits acquired by labour, with the use of capital or skill in trade or professions.

3rd, The earnings or wages of unskilled labour.

Incomes of the last class are necessarily exempt from direct taxation. For if imposed it would with difficulty be collected, and must eventually fall back as a charge upon capital, in an increase of the wages of labour.

With the two first classes we are now concerned; and their essential distinctions are, that the first arise

spontaneously from an existing property ; the second are the creation or reward of personal industry, acting upon or combined with capital. And the disposition of them differs in this, that the first are applied almost wholly as expenditure ; the latter, in a very large proportion, reserved as capital.

Practically, I assume that of £100 received as income arising from real property, £90 are devoted to expenditure ; while, of £100 received from trade, £60 only are expended.

Prominently, in the first class of Income, appear the Dividends of the Public Funds ; and with them may be ranked all Interest of money from Loans on Mortgages and Dividends of all Public Companies, whether they be Banks, Insurance-Offices, Dock, Canal, or Railway Companies. It may be said that Railways and Canals are destructible, and that the profits of Public Companies may be precarious ; but the answer to such objections is, that if Railway and other Companies kept their accounts properly, they would set apart such a portion of their receipts, as a guarantee against depreciation and casualties, as would make their dividend at once a correct one to divide amongst their proprietors, and a correct one to rate for an Income Tax.

It would be a wholesome change that managers in public trusts should learn to “make things pleasant” to their proprietors, not by giving them fraudulent incentives to devour their substance, but by giving an honest assurance, that what they receive in

Dividends one year, they may expect to receive the next.

What Companies are bound to do, individuals should be allowed to do. The landed proprietor should have his gross rent reduced by the cost of repairs and collection. The house-owner would be entitled to larger deductions under the same heads; and every gross revenue, whatever be its source, would in the same way (if deductions be needed) be reduced to a *net* income; and all net incomes of the first class, thus ascertained, should then be uniformly subjected to the highest rate of taxation. Incomes of the second class, comprising trades, professions, offices and salaries (upon the assumption that 40 per cent. is laid by as capital), should be charged at two-thirds of the higher rate.

One of the most embarrassing considerations attending the Income Tax is to determine the point below which it should cease to take effect. The present limit of £150 has been censured as arbitrary, and as operating invidiously, by taxing with £4. 7s. 6d. the income of £150, and leaving free the income of £149; and the remedy proposed for this grievance has been to deduct from every income, previous to its assessment, the sum, whether it be £150 or £75, which might be adopted as the minimum.

Before adopting this suggestion, it may be well to see how it would work if the minimum were £75.

The contributors to the Income Tax are now

stated to be 340,000; their aggregate incomes, £193,000,000; and the amount of the tax at 7*d.* in the pound, £5,630,000.

If the minimum were reduced from £150 to £75, you would bring within the operation of the Tax 500,000 persons whose incomes would amount to £50,000,000, and who would contribute, at 7*d.* in the pound, £1,450,000 (*vide* 2nd Rep. p. 463).

Now if you assess these 500,000 persons, not on their actual incomes, but on their excess beyond £75, you will have to collect out of that number—

from 34,000 less than £0 17 6 each

38,000 — 0 14 7

43,000 — 0 11 8

49,000 — 0 8 9

56,000 — 0 5 10

64,000 — 0 2 11

sums which surely would not be worth recovering. If, again, to the whole number of contributors, 830,000, you allow £75 each, you reduce their assessable amount from £243,000,000 to £180,450,000, or less than you had before you had extended your circle. As a means therefore of increasing the productiveness of the Tax, the plan of extending its basis, and at the same time allowing the deduction of the minimum from all assessments, would be a failure.

A better expedient would be to assess at one-half only the incomes between £75 and £150, leaving the higher ones untouched, and thus adding £725,000 to the collection.

But is any concession on this point necessary ? I incline to the negative.

By extending the operation of the Tax to all incomes falling within the second class, as I have defined it, embracing the earnings of all skilled labour (which at the lowest may be rated at £75 a year), the field of taxation is fully occupied ; and if this be so, there can be no injustice in leaving altogether out of view the close approximation in value of the wages of unskilled labour in the lowest class, and in assessing, at an uniform rate, all incomes of the second class, from £75 upwards.

The same arguments which justify the entire exemption of industrial incomes under £75, do not apply to incomes, however small, accruing from realized property ; yet the consideration that they represent the accumulated savings of unskilled labour entitles them to some indulgence, and the inconvenience of having to collect very small sums concurs in suggesting a minimum below which the Tax imposed on the first-class incomes should not be enforced. If this minimum be fixed at £50, the lowest annual sum levied upon either class will be 50s. if the Tax be 1s. in the pound, on the first class, and 8*d.* on the second, or 37*s.* 6*d.* if the Tax be 9*d.* on the first, and 6*d.* on the second class.

In some most important particulars, a future Income Tax must differ from the present *Property* and Income Tax : it must not tax property ; it must not confiscate capital, because capital and



interest have been blended together under the form of annuities ; neither must it include in the same category, and subject to the same rate of assessment, the public dividends and the annual earnings of trades and professions.

I have already stated the grounds on which the annual earnings of trades should be charged at two-thirds of the rate made on rents and interest,—viz., that it may be fairly assumed that relatively to first class incomes, one-third more of all such earnings is set apart as an addition to capital, and becomes the following year the source of fresh income, either in the form of interest, of rent, or of profits if the savings are applied to the extension of trade or manufactures. Whatever the application of these reserves, the annual interest or gains which flow from them are immediately subjected to the operation of the tax ; so that the *property* which originates them *ought not*.

This rule is directly at variance with the evidence of some of the witnesses examined before the recent Committee on the Income and Property Tax ; and when I find that evidence attached to such names as Babbage and Warburton, I do not feel justified in passing it unnoticed.

Mr. Babbage\* (5451) “ looks upon the total sum  
“ received by means of the taxes as a sum to be  
“ expended in the protection of person and pro-  
“ perty during the twelve months for which it is

\* Evidence on Property and Income Tax, 2d Report.

“ raised ;” and, therefore, “ would levy the income  
 “ of the State by an annual tax, which should be at  
 “ the same rate on the *incomes* of all persons sub-  
 “ ject to the tax.” And to the question (5456),  
 “ Do we understand you to say that a person having  
 “ £100 a year from land in perpetuity, and a person  
 “ making £100 a year from his profession as a  
 “ medical man or an engineer, ought to be equally  
 “ taxed for that £100 ?” he answers, “ I should tax  
 “ them in exactly the same proportion, for this  
 “ reason : that the possessor of the land, by means  
 “ of the peace and security which are enjoyed, gets  
 “ £100 out of his land in the twelve months, and  
 “ the medical man, the professional man, and the  
 “ shopkeeper, get also the same sum, and are pro-  
 “ tected in the same way during the twelvemonth ;  
 “ and it follows necessarily from *my principles* that  
 “ they should be taxed in the same proportion.”

What is *income* as matter for taxation ? The question really turns on that ; and whatever point there may be in answers 5451-2, rests on the assumption, that as all the taxes raised in the year are expended in the year, so all the *incomes spent* in the year (whatever their source) should be assessed alike for taxation. But this is confounding income with *expenditure*,—a very different thing, certainly.

Porter\* estimated the annual increase of personal

\* I cannot mention Mr. Porter's name without adding my tribute of regret at the loss of that able, honest, and laborious public servant.

property at 40 millions, and of real property at as much more. And how is this wondrous increase of wealth effected except by saving from the annual revenues and earnings of the community, by that process which excepts from present use, or enjoyment, or consumption, a portion of the yearly income to become capital,—a process ignored in the reasoning of all the advocates of indiscriminating assessment?

In the principle laid down by Adam Smith, and submitted for Mr. Babbage's assent, at question 5564,—“The subjects of every state ought to contribute towards the support of the Government as nearly as possible in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of that state,”—I can quite concur, for contribution is therein limited to the revenue which they *enjoy*, and the revenue *saved* is thereby excepted, unless it can be shown that money can be enjoyed twice,—first in the saving and then in the spending. But I turn to the evidence of Mr. Warburton, who (5185), “would treat professional and mercantile incomes as short annuities,” and proposes (5195) “to levy upon annuities and income arising from real property the same tax.”

The consideration of his argument upon *annuities* I postpone, in order to review his reasons for perpetuating the present mode of treating professional and mercantile incomes.

(5185.) “The way in which I should tax professional and mercantile incomes would be this: I should treat them in the light of short annuities, and levy upon them the same rate; and with regard to incomes of this description, I should act very much as the State has acted, not making it very inquisitorial, because if you did there would be a rebellion against the tax, and it would be no longer paid. I believe the tax has been levied with great *moderation* by the State; that was the practice when I was a merchant, from 1808 to the repeal of the 10 per cent. tax; for years I made the same return annually, and was never surcharged.”

(5186.) “Supposing A., employed as a merchant, returns his £1,000 profit for the year, do you consider that he ought to be taxed three per cent. upon that £1,000, or is there any modification by which you would alter the amount on which he should pay the tax?—I would treat that precisely like any other annuity; the *merchant makes his own return*; the greatest indulgence is in that respect shown him by the State; in the case of other properties, the parties may possibly have reason to complain; a man who has an income derived from land or houses, gets no allowance for repairs, and various other heavy deductions which are made upon the nominal rent; but the mercantile and professional men make their own returns at their own discretion, and whatever the

“ return may be, it is hardly possible by investigation to find out whether the return is true or not. “ *As the returns are made by the parties themselves, “ without any possibility of really testing their accuracy, I should, generally speaking, say that those “ two descriptions of persons were more leniently “ treated* than those who have the tax levied upon “ visible and tangible property, where it is levied not “ only to the last shilling, but considerably beyond “ it in the case of land and houses.”

5213. “ With regard to the *leniency which you “ say has been practised, and which you recommend “ in the collection of the income tax upon professional and mercantile incomes, you do not “ recommend that as a matter of justice, but as a “ matter of expediency?—Certainly: if it were made “ very inquisitorial the public would not bear it; “ you are compelled to trust in a great measure “ to the returns made by individuals. I have seen “ a return in which the total number of fines and “ surcharges was very small as compared with the “ whole of the property taxed.”*

It is to be hoped that Mr. Warburton *means* only to approve the “moderation” which forbears compelling traders to *overtax* themselves, and the “leniency” which abstains from *surcharging* those whose returns are honest. But against these passages, in their obvious construction, I must indignantly protest, and repudiate the offensive supposition that British merchants of the present day can be reconciled to an

unjust tax because "making their own return," the accuracy "of which cannot possibly be tested" by the Commissioners, they hold in their hands the power of averting spoliation by the commission of fraud,—of rescuing their imperilled gold by the deliberate sacrifice of their integrity. The wrong inflicted is admitted in the remedy allowed; but tenfold more hateful than the injury would be the insult implied in leaving such a grievance to be redressed by such a means.

That glaring and disgraceful cases have occurred in which parties have made fraudulent returns, is a fact which, so far from being a plea for acquiescence in the present state of the tax, should serve as the strongest incentive to remove the injustice which goads men into discreditable courses. I trust to the spirit of English merchants, and to the regard for the probity of the commercial classes which ought to animate the administration of the country, to remove this fruitful source of dishonesty. Impress on every man a conviction that he is fairly dealt with, and you will then have grounds for believing that the trust reposed in him will not be abused.

I return to the question of *Terminable Annuities*; and whether they be terminable by lapse of time or lapse of life, is immaterial. A life policy being granted at a price calculated with reference to the term of years which the life has in expectation, a lady at 70 would give the same price for a life annuity as for an annuity of the same amount for ten

years ! A man of 54 would for the same sum receive an annuity for life, or for sixteen years. Let us now observe the mode of purchasing an annuity for ten years, and analyse it in its various stages. The Three Per Cent. Consolidated Annuities being at *par*, and the rate of interest being 3 per cent., you apply at the National Debt Office, and, in return for £10,000 stock, receive an annuity of £1,164. 18s. 2d., payable in half-yearly amounts through the period of ten years. In the accompanying table, you will observe the varying proportions of interest and capital included in each half year's annuity.

It is manifest that 3 per cent. interest being the acknowledged basis of the transaction, you cannot receive more, and that all the excess of the annuity beyond the interest is so much capital replaced ; in fact, the transaction may with perfect accuracy be described as a " Loan at 3 per cent. interest, payable half yearly, of £10,000, to be repaid in the following instalments,--viz. : on the

" 5th January, 1850 . . . £432 9 1

" 5th July, 1850 . . . . 438 18 10

" 5th January, 1851 . . . 445 10 6

" and so on until it concludes with the final payment on the

" 5th January, 1860 . . . £573 17 0"

The 5 and 6 Vic. cap. 35, in its first clause, levies under Sch. C. 7d in the pound upon "all PROFITS arising from annuities," &c. Surely, looking at the

Analysis of a Government 10-Years' Annuity of £1164. 13s. 2d. on which the present Act would levy 7d. in the £, or £33. 19s. 6d. per Ann. during the whole term.

1. Capital engaged in the Annuity at the Dates prefixed.	2. Interest at 3 per Cent. on Capital engaged.	3. Capital returned in each half-year's Annuity.	4. Interest (col. 2) and Capital (col. 3) received together in each half-year's Annuity at the Dates affixed.
£ s. d.	£ s. d.	£ s. d.	£ s. d.
5 Jan. 1850	10,000 0 0	432 9 1	582 9 1
5 July "	9,567 10 11	438 18 10	582 9 1
5 Jan. 1851	9,128 12 1	445 10 6	582 9 1
5 July "	8,683 1 7	452 4 2	582 9 1
5 Jan. 1852	8,230 17 5	458 19 10	582 9 1
5 July "	7,771 17 7	465 17 7	582 9 1
5 Jan. 1853	7,306 0 0	472 17 4	582 9 1
5 July "	6,833 2 8	479 19 2	582 9 1
5 Jan. 1854	6,353 3 6	487 3 2	582 9 1
5 July "	5,866 0 4	494 9 4	582 9 1
5 Jan. 1855	5,371 11 0	501 17 8	582 9 1
5 July "	4,869 13 4	509 8 3	582 9 1
5 Jan. 1856	4,360 5 1	517 1 1	582 9 1
5 July "	3,843 4 0	524 16 2	582 9 1
5 Jan. 1857	3,318 7 10	532 13 8	582 9 1
5 July "	2,785 14 2	540 13 5	582 9 1
5 Jan. 1858	2,245 0 9	548 15 8	582 9 1
5 July "	1,696 5 1	557 0 3	582 9 1
5 Jan. 1859	1,139 4 10	565 7 4	582 9 1
5 July "	573 17 6	573 17 0	582 9 1
	1,649 2 2	10,000 19 6	11,649 1 8



table annexed, no one could venture to call the sums ranged in the third column "*profits*;" yet they have been taxed under the sanction of subsequent clauses in the act; and this proceeding is defended by Mr. Babbage and by Mr. Warburton, from whose evidence I extract the following:—

5149. "Would you tax the annuitant of ten years at the same rate as the annuitant in perpetuity?—Provided the income tax were considered as a *permanent* source of revenue, I should."

5160. "Suppose A. and B. each to have £10,000. A. has invested his £10,000 in an annuity which expires in 1852; B. has invested his £10,000 in consols which are returning him £300 a year dividend. Is it fair that A. should be taxed upon the whole £10,000, and that B. should be taxed upon £300 only?—The £10,000 which A. receives is to be treated as income, and therefore I say that if the State makes the income tax a permanent source of revenue, he should pay £3 per cent. upon that income of £10,000; and if you will estimate the payment that is made upon that single year's income of £10,000, it will be found to be equivalent to the tax that would be levied in perpetuity upon £10,000 invested in property yielding perpetual revenue: I see no distinction between the cases, whether you take one year or ten years for which the terminable annuity is to run."

5161. "This is income tax, as you understand it:

is this £10,000 upon a life annuity income or not, under the circumstances?—It is income ; if it is yielded by any thing yielding income it is to be treated as income.”

Income ! *In-come* ! Why, Mr. Warburton’s argument runs “ all income is to be taxed, and all that “ *comes in* is income.” Upon this definition every contractor with Government may expect to have 7*d.* in the pound deducted from the amount of the stores he has delivered or the work he has executed, when it *in-comes* to him : the capitalist and the trader may be mulct 7*d.* in the pound on each one of their transactions when on its completion the amount *in-comes* : the money-lenders in Lombard Street may be called upon to relinquish to the Exchequer 7*d.* in the pound on the maturity of every loan they have advanced—of every bill they have discounted. It is difficult to write seriously in commenting upon such astounding evidence ; nor can I discover how the permanency or degree of duration of an income tax affects the justice of its operation.

Mr. Warburton professes to prove his position by two pages of algebraical formulæ. Those who may have been terrified into acquiescence by his formidable array of cabalistic figures will, I hope, be reassured by the scientific corrective provided by Mr. Farr and other experienced actuaries. But the fallacy of Mr. Warburton’s argument in reality lies

very near the surface : it is exhibited in his answers to questions 5151 and 5162-68\*, and may be thus summed up :

\* 5151. "Do you mean to say, that if the income and property tax is to be a permanent tax, A., who has property in perpetuity, worth at its present value £10,000, and returning in the year £300 of net rent, is to be taxed £10, and that B., who has property secured to him only for ten years, the present purchasable value of which is only £2,659, returning in the year £300, is also to be taxed at the same rate, £10?—What I have stated is this, that as you have already made, in consequence of the man's interest being limited to ten years, a reduction in his estimated capital from £10,000 to £2,659, you may now consider the £10,000 and the £2,659 to be each invested in the same description of property, and each to yield a perpetual annuity in proportion to £10,000 and to £2,659, and therefore if the tax upon both is made perpetual, they will pay three per cent. in proportion to the £10,000 and to the £2,659; but inasmuch as B.'s annuity will expire in the course of ten years, the Government cannot levy the tax after the annuity has expired, and therefore the Government ought to collect during those ten years a tax equivalent to the perpetual tax upon the £2,659; if the Government does that, it is precisely equivalent in point of value to the tax which it now collects; that I hold to be a mere matter of algebraical calculation; it is really nothing else."

5162. "Is not the tabular value of an annuity of £300 for 10 years something under £3,000?—Yes."

5163. "In order to avoid confusion, I will assume that the value is 10 years' purchase, or £3,000, and that the income tax is three per cent. In that case will not the tax upon an annuity of £300 be £9 per annum?—Yes."

5164. "Calculating the value of that tax at 10 years' purchase, as we do the annuity, will not the value of the tax be £90?—Yes."

“ A.’s £10,000 produces a perpetual annuity of £300, and pays to the Income Tax £9 annually, B.’s £10,000 produces a terminable annuity of £1,000, which must all be taxed in £30 annually, for as B.’s annuity will expire in 10 years, and the Government cannot levy the Tax after it has expired, it must collect during the 10 years £300, worth immediately £270, a sum equivalent to the present value of a perpetual tax on the interest of £10,000.”

Mr. Warburton’s “principle” is to tax at an equal rate the interest of the perpetual annuity and the payment of the terminable annuity; and the demonstration of his accuracy lies in the proof that by his process he extracts *equal sums* from the terminable annuity in 10 years, and from the perpetual annuity through all time.

But what Mr. Warburton omits to prove is the justice of taxing equal properties with equal sums in *unequal* periods. Either he should have compared the results of the Tax when levied for equal periods,

5165. “ If the £3,000 were invested in the three per cents. at “par, that would give £90 per annum?—Yes.”

5166. “ The annual tax upon that at three per cent. would be “£2. 14s. ?—Yes.”

5166. “ Which sum in perpetuity might be purchased for a “sum of £90 ?—Yes.”

5168. “ The value therefore of the income tax for 10 years on “the annuity of £300 is precisely equivalent to the value of the “income tax on the interest of the value of the annuity, viz. “£3,000 if invested in the three per cents. ?—Yes, and that is “precisely my principle.”

or he should, in justice to the principle he adopts, exempt from any future taxation the capital and the interest of the capital which has been thus taxed under its form of annuity ; for, although the annuity expired, the capital did not ; it was reinvested, and became again the parent of interest to be again taxed.

Mr. Warburton was asked by Mr. Ricardo, (5157) “ Supposing that a man’s whole property should “ consist of an annuity for one year, that a man “ had inherited £10,000 payable as an annuity, “ which expired in a year, that would be the whole “ of his capital ?” It was an inconvenient question, and Mr. Warburton answers : (5157) “ You may “ call it capital, I do not care what you call it, capital is a disputable word, but, in the question put, “ it seems to imply merely so much money ; I believe we are both members of the Political Economy Club, and we are aware of the many discussions that have been raised upon the meaning “ of the word ‘ capital’ .”

Mr. Warburton may evade the point, by cavilling at the possible meaning of the word “ capital.” But would he answer this question ?—“ A man purchased “ on 5th January 1851, an annuity of £10,000, due “ on the 5th January 1852 : was the £10,000 which “ he received all interest ? If it was not, what did “ the residue consist of ?” If he gave £9,700 for the annuity, would not £300 be *interest* ? and the £9,700, would it not (even at the Political Economy Club) be called *capital* ?

But I will suppose that annuities, whether for lives or terms, really pass into expenditure: does that affect the proportion of assessable income?—Not at all. The question is not “what use does the annuitant make of his annuity?” but “what was given by the Government in that annuity?” And the answer must be, “So much as interest to be taxed “so much as capital to be repaid untaxed.” That B., the possessor of a terminable annuity, chooses to spend it all, is no more a reason for taxing him upon its composite amount, than would the gradual dissipation of A.’s £10,000 consols be a justification for taxing him upon the £500 which he would sell out every six months.

No scheme of Income Tax, unsound and unjust for a year, will be just when the tax becomes perpetual;—no sound scheme can ever be unequal in its incidence, whether it endure for a year or a century.

It may be well here to meet some of the arguments which are publicly advanced in favour of the indiscriminating tax upon Professions and upon Annuities, Perpetual and Terminable. “It must be right, for it was imposed by Peel, who had the precedent of Pitt. It has been some years in operation, and every year’s transactions in Annuities have sanctioned its permanence by the implied consent of the purchaser, who, at all events, cannot complain *now*, since he bought with consciousness of the liability. But even if it be unjust, no remedy can be suggested which would not be so complicated as to be impracticable.’

Now, as to the Pitt precedent, I venture to appeal from the wisdom of our ancestors to the common sense of our own days, upon no subject more confidently than upon questions of financial policy. Sir Robert Peel, it is true, resting upon the precedents of 1798 and 1806, did refuse "to admit any distinction with respect to different kinds of income, lest it should become necessary to abandon the Income Tax\*;" and he would not risk forfeiting the power it gave him of promoting important reforms in our fiscal code. For this purpose, his Act was avowedly introduced: it was accepted the more readily, because it was proposed for the brief period of three years; and it has been endured thus long, because with every Session came a hope of its readjustment upon equitable principles: an adjustment easily practicable, and far from being fatal to the Income Tax, is *the condition* of its prolonged existence.

As to the dealings in Terminable Annuities barring new holders from a right of remonstrance, and time disqualifying the older ones, it may be answered that no lapse of time can legitimize so gross an injustice; that every year increases the weight of the oppression; and that dealings in Terminable Annuities have been prompted, and their price been settled, not by the need alone of such investments, or by the current value of money, but by the greater or less degree of faith in the intelligence and recti-

\* Hansard, 18 March, p. 916.

tude of the Administration under whose consideration the subject might be brought.

And what evidence does the Report of the Committee bring upon the transactions in Terminable Annuities? It is, that, while in 1842 the amount payable in Ireland was only £489 per annum, it amounted in 1852 to £82,224. The favoured Irish are exempt from Income Tax; so, whether it is levied at 7*d.* in the £ on interest from Consols, or at 35*d.* in the £ on interest from Terminable Annuities, matters not to them. The English capitalist, writhing under the infliction of a five-fold exaction, takes a transfer of Consols from Dublin and cedes his Long Annuity to the Irishman, who gains, in additional interest, a difference of 28*d.* in the £. The Englishman's Consols at par yield, after the deduction of 7*d.* Income Tax, an interest of £2. 18*s.* 3*d.* His Annuity, due in 1859, yields only £2. 11*s.* 3*d.* after it has been attenuated by the Assessor. And the net receipt of interest would gradually diminish until, in 1859, the interest would be *nil*, the Tax absorbing the whole of it.

Leave the law as it is, and what must be the consequence? Why, that all Irish Consols will be converted into Terminable Annuities; and that, if English capitalists cannot get rid of their Terminable Annuities by sale, they must migrate to Dublin. Seriously, it is quite worth while for any large holders of Terminable Annuities to form an establishment in Ireland, and transfer their funds.

No labyrinth of algebraic formulæ, no sophistry, no



disputations about words, can long confine or disguise the realities of this question ; and if official inertness oppose the admission of a remedy, the aggrieved will escape the range of the fiscal freebooter by the simple process of calling things by their right names. Every contract for a Terminable Annuity, whether for life or term of years, would resolve itself into “ a Bond for the repayment, by instalments, of money borrowed at a given rate of interest ;” and the contingencies of lives, pre-deceasing or surviving the period of expectation, will be met by an appropriate clause. For example : Hannah Hopeful, a widow of 70, having lent to the “ Ingenious Life and Annuity Office” £10,000, repayable in instalments within 10 years, further agrees “ that, in consideration of H. H. relinquishing to the Ingenious Office all capital and interest remaining unpaid at her death, the Office engages to continue, should she survive the 5th January, 1860, the half-yearly payment during the remainder of her life of the said last-mentioned sums of £573. 17s. capital, and £8. 12s. 1d. interest” (*vide* Table, p. 20).

The absurd and unjust anomalies which result from the confusion of Capital and Interest in the case of the Property and Income Tax, may be further illustrated by a reference to the Acts 9 & 10 Vic. cap. 101, and 12 & 13 Vic. cap. 100, passed, the one “ to promote the Improvement of Land by Drainage,” and the other “ to promote the Advance of Private Money” for “ the Drainage of Lands.”

The object was excellent ; and, to enable the land-

owner to borrow on the most favourable terms, the Acts gave priority over all claimants to the lender of money for drainage. But that the land should not be for ever burthened with this new mortgage, the Acts stipulated that the loan should be repaid within a period of 22 years. So far good ; but the Acts unfortunately provided that the annual instalments of repaid capital, and the interest on the loan, should be together thrown into equal annual payments, after the rate of £6. 10s. per cent. per ann., for the term of 22 years : and these payments the Acts called " Rent-Charge." No sooner had the last Act passed than applications flowed in to bankers and other monied corporations. The security was unobjectionable, the repayment convenient, the rate of interest satisfactory ; but it was discovered that the Property and Income Tax Act levied 7*d.* in the £ upon every " Rent-Charge." The repayments of Capital under the Drainage Acts were called " Rent-Charge," subject, therefore, to a charge of 7*d.* in the £ ; and the abstraction of capital incurred in the course of the operation was found to be equal to  $\frac{1}{4}$  per cent. in the rate of interest ; *i. e.* a Bank would have been satisfied to lend under the Act at £3. 8s. per cent. ; but the assessment of the Rent-Charge reduced the interest to £3. 3s. and this the Bank could not afford to take. It seemed very ridiculous that the wise intention of the legislature should be frustrated by a name : Counsel's opinion was taken, but the dilemma was pronounced irremediable. " Private money" was repelled from Drainage Loans, and the

agriculturists fell back upon the Government, to whom the assessment of the Rent-Charge was immaterial, since, what they paid on one account, they received back on another.

I have endeavoured to show that the principle on which Terminable Annuities should be dealt with is, to separate the capital from the interest, and tax the latter only. How much in every case (whether the Annuity be for Life or Terms of years) ought to be assessed as interest, can readily be ascertained by Tables, of which those appended to this Letter may serve as an example applicable to existing cases. For the future, when the Tax is definitively settled, the simplest plan will be to deduct the Tax from the Interest, and grant an annuity, free of Income Tax, at £2. 17s. instead of £3.

I may express here my satisfaction at finding that, in the views which I entertain on this part of the subject, I share the opinion of Mr. Mill, though I must mingle with it an expression of regret that he should have marred his admirable evidence by advocating a graduated legacy-duty (5396 and 5399). Mr. Mill disclaims the impolicy of a graduated tax on the property of the *living*, but would apply one to the property, not of the *dead* (for the dead have *none*), but of the living who gain it by inheritance. Surely, in either case, graduation arraigns the dispositions of Providence, subverts individual rights, and shows itself to be in principle but a step towards Socialism.

The right perception of the elements of Terminable Annuities has been unhappily impeded through their having been classed by some witnesses with Professional gains and Life-Interests, and by others with Life-Interests only. I regret to find the latter view entertained by Mr. Farr, and by many of the learned Actuaries whose evidence on other points has been most satisfactory ; but I beg their consideration of an argument in proof that there is an essential difference in the composition of Terminable Annuities and of Life-Interests, and that, as their nature, so their treatment, should be different.

Mr. Farr (4904—16) asserts that the owner of a life interest in any property should be taxed only upon a valuation of his life interest according to his age. So that A's £1000 held in fee would be taxed at £1000, while the £1000 life interest of B, 40 years of age (and having an expectation of  $16\frac{2}{3}$  years) would be taxed only at £500.\*

Now there must be something wrong in a rule which is easily evaded. A, B, C, are three friends, having as their eldest sons X, Y, Z, and each possessing £1000 a year net income in land. B and C avail themselves of Mr. Farr's hint, and settle their landed property on Y and Z, retaining only the life interest. By this simple process will they escape the payment of half of the Income Tax which A pays

\* The same opinion is expressed by Mr. Williams (3514), and Mr. Brown (4002).

entire? According to the rule they ought, but its strict observance is found inadmissible.

The difference between the Tax paid on the life interest alone and that due on the entire property must be paid by somebody, and so the next step in the scheme is to make the owner of the life interest advance the portion of the Tax due by the Reversioner to be recovered from him by his successors.

Deviating, therefore, from the rule, Mr. Farr (5006) would not interfere to relieve the parent when the property descended to his own children. Well, then ; B shall leave his property to Z, who is no relation, and C leave his to X : Will they thus escape ? Only in idea. They must still advance the Tax for their successors in the property : strangers or kindred, known or unknown, born or unborn, the temporary possessor must advance the Tax due by the Reversioner, and keep his account against him at compound interest to be recovered by his representatives.

By what machinery, mode, or means the claims of the tenant for life were to be enforced, Mr. Farr does not say. Mr. Edmonds (4402) " did not imagine " it was within his province to consider," nor has Mr. Hardy (4614) made up his mind to any plan of legal recovery. Really I cannot so disparage the ability of these learned gentlemen as to suppose *that* feasible which they cannot tell us how to do. But admit the contrivance of a plan whereby the tenant for life should secure to his heirs the recovery

of his accumulated advances upon the property, what will be the practical result? The four-and-twenty letters of the alphabet shall represent as many successive life tenants. A in his generation pays his own Income Tax, and also B's (the latter to be recovered by his heirs). B refunds A's Income Tax, pays his own, and advances C's. C goes through the same process, and so on down to Z. What each life tenant refunds to his predecessor's heirs, by a single payment, he advances by instalments for his own successor, and the aggregate revenue of no one between A and Z is really altered in amount, although it may be most inconveniently altered in its disposition by the gratuitous infliction of an undying debt.

The proposition, then, of assessing at a different rate the life-tenant, and the owner in fee of the same property, fails practically, because, either you make the concession operative, and so admit, by an easy process, the general evasion of the heavier tax, to the detriment of the Exchequer; or, you resolve to protect the Exchequer, and in following out your claims upon the property you reduce the proffered boon to a vexatious nullity.

And this proposition, so abortive in action, is the legitimate offspring of a fallacious theory. It was not, perhaps, unnatural that actuaries professionally interested in ascertaining the value of property as an ultimate security for loans, should insist upon the greater *marketable value* of the fee-simple, assign-

able by one proprietor, above that of the life-tenancy assignable by another. But to a statesman concerned in ascertaining the right incidence of an Income Tax, the question occurs, "what is the property?" not who is, or who will be, the proprietor.

The professional habit of considering a *Life Interest* to be an inferior tenure, has blinded the actuaries to the fact, that whatever legal power of disposition he may possess, no one can, through personal fruition, have more than a life interest in any property, "For we brought nothing into this world, and it is certain we can carry nothing out." An estate produces £1,000 a year: the owner, whether it be entailed or not, has beneficially no interest in it beyond the grave; true, he may, as Mr. Farr suggests (4914), "convert the estate, if free, into a "source of enjoyment by selling the property for "£33,333, and getting double the life annuity he "now enjoys." Exactly so; but (according to the very principle for which Mr. Farr himself has so ably contended,) from the annuity of £2,000 thus obtained must be deducted £1,000 for redemption of capital, leaving as pure income, or source of enjoyment, or assessable interest, £1,000. Mr. Farr has proved that more than £1,000 *in this form* the tenant in fee cannot procure by any financial manœuvre, and he cannot shew that the tenant for life has any less. The "source of enjoyment," on account of which he advocates (4914) a higher assessment upon the owner in fee, is simply *the power* of con-

suming capital, a power which, even when exercised in the case of Terminable Annuities, Mr. Farr disallows as a justification for a heavier assessment. With the power of consuming capital, Mr. Farr ranks the power of testamentary disposition as an enjoyable, and therefore taxable function. He says (4916), "it is an enjoyment to a man to *be able to leave* property to his children." But surely the ideal enjoyment of *a power to leave* is not superior to the ideal enjoyment of *having left*; and yet this reasoning would exempt the affectionate parent from one-half of his fiscal liability, the day after he has, by a formal conveyance, ensured to his children the inheritance of his estate. Mr. Farr's view does not differ from my own as to the mode of estimating the taxable element in Terminable Annuities; he would with me say, "thus much is the interest of capital" and taxable, the remainder is capital repaid." Let him in the same manner analyse every "life interest." If it be not only a "life interest," but a "*life annuity*," by all means let it be assessed accordingly; but if it be the rental of land—if it be the interest of consols, or if it be the usufruct of any other realised property—it must be made to contribute to the Income Tax, upon the highest scale of assessment, wholly irrespective of age, condition, or power in the recipient. The incidence of the Tax is determined by the essence of the property, not by the accident of the possession.

This principle holds throughout, and most certainly



brings within the category of incomes assessable at the highest rate all rent-charges arising from the commutation of tithe. I notice this description of income particularly, because I find it stated in the evidence by Mr. Williams (3385), that a clergyman is a life annuitant: by Mr. Neison (4700), that he would treat "the case of a clergyman precisely as he would that of a Government annuity for life:" by Mr. Edmonds (4533—4535) "that a clergyman "who has a living should be taxed as a life tenant *without a reversion*;" and to meet the difficulty of his having no known successor in the living, he adopts the chairman's suggestion, and places the clergyman in "the category of professional men." Now, so far as the livings referred to (and it is the case with two-thirds of them) are derived from the rent-charges fixed in commutation of tithe, it is impossible to admit the plea for treating them as if they were "life annuities." There is no shade of resemblance. The rent-charges are the *first* charge upon the land, not only taking precedence of the landlord's rent, but recoverable from *him* in default of the tenant. There are no better secured revenues in the country than those receivable under the Tithe Commutation; and they are as satisfactory in their origin as in their legal recognition. They are emphatically the first fruits of the land. A portion (too large a one) is in the possession of lay impropricators; the remainder forms the endowment of bishoprics, chapters, and parochial cures.

It is not proposed to exempt the property *as property*, and so exonerate the lay as well as the clerical impropiators, but to treat the latter as *life annuitants*. Analyse a rent-charge. Is there in it any repayment of capital? If not, it is no life annuity. Is it the creation of personal industry or exertion? If not, it cannot rank amongst professional profits. When the income of a clergyman proceeds from pew rents or fees, it may be treated as "*professional gains*;" but although among the necessary deductions, an allowance of (not less than £70) should be made for the labour of the cure on every Rent-Charge to which duty is attached, the Rent-Charge itself must not be confounded with a Life Annuity only because the incumbent has a "life interest."

It seems hard to deny a clergyman the deduction from his rent-charge prior to its assessment of the premium paid on the insurance of his life, and yet it is inadmissible in principle, financially, and morally too; for to admit it would be virtually to ignore the truth that the Church was endowed for the sake of the people, not for the sake of the clergy, and that her revenues are consecrated to the maintenance of bishops, priests, and cathedral chapters, that they may extend the limits of Christ's church, and preserve within it the "Catholic Faith whole and undefiled,"—not that they may aggrandize and enrich their families out of the wealth committed to them—as labourers truly—but also as *stewards* in Christ's Vineyard.

Consistently with a due regard to the purposes of the benefice he holds, it is of course perfectly legitimate for either bishop, dean, or deacon to make provision for his widow or children by the insurance of his life, or through the savings effected by self-denial and frugality. In commenting upon the propositions I have found advanced, I am very far from denying that the clergy, as a class, are not only disinterested, but liberal often beyond their means. They suffer, it is admitted, much pecuniary wrong through the imperfect system of rating to the poor; but it is most undesirable that they should receive as a measure of relief, a concession founded on a vicious principle.

Pensions, again, are life interests in the best of properties—the revenue of the nation, and should be taxed in the highest class of incomes; while salaries (with which they have been ordinarily confounded) are but precarious personal gains, and assessable at the lower scale.

Amongst other claims for the modification of the Tax, there is a very strong one advanced, on behalf of the owners of mines, by Messrs. Smith and Thynne. The present practice is to charge 7*d.* in the £ on all sales of mineral; and this Mr. Thynne (5488) represents to be a tax upon the fee-simple, and he consequently asks (5531) that the mineral sold be considered *capital*, and that upon the interest thereof the Tax be levied. Obviously the remedy proposed is further from being an equitable arrangement than is the present custom. Upon the annual sale of

£1000 worth of coal, the mine from whence it was extracted could not be diminished by that much in value ; for a portion of the £1000 must be considered as interest upon the value of the mine. If the value of the mine were £10,000, £500 would be the interest and taxable: £500 would be capital realised from the mine, and therefore exempt. If, on the other hand, the sale of £1000 worth of coal did not diminish the value of the mine, it must be wholly counted as interest, and taxed accordingly. The probable exhaustion of the mine must therefore be considered. A mine which promised a continuance of equal produce for seventy years or more, might practically be treated as requiring no compensation fund ; for less periods a proportional deduction for redemption of capital would reduce the produce to the assessable value.

I profess myself quite unable to concur in the opinion expressed by many witnesses, that furniture, pictures, and works of art, should be exempt from taxation.

Mr. Neison (4724) would not tax them, because they are “*unproductive property*.” Mr. Babbage (5674) objects “that it would be unwise to make every surrounding object of enjoyment or instruction recall a disagreeable tax.” Mr. Warburton (5183) “has not given any great consideration to it; but, upon the whole, he would be adverse to taxing property such as pictures, &c., which do not yield revenue: the operation of it he thinks would be greatly to decrease the enjoyment of that pro-

“ perty, because everybody would be contemplating  
 “ what his beautiful furniture and fixtures would cost  
 “ him a year in taxation, besides the annual amount  
 “ of interest which he loses upon their saleable  
 “ value.”

Now, as none of these witnesses profess to have given the question much consideration, it may not be superfluous to examine whether any principle is endangered by the proposed exemption. We will suppose a case.

A Bengal civilian returns from India to enjoy his honours and the interest of £200,000 consols, earned by many a year of toil. Upon his arrival in London, he drives to Mivart's, where he finds that No. 41, Brook Street (a part of Mivart's vast establishment) has been prepared for the reception of his family. Here he resides a couple of months with entire satisfaction. The house he occupies exclusively : a cook skilled in curry has been installed in the kitchen, with an ample “ *batterie de cuisine* ;” the furniture, from the hall to the attics, is of the best workmanship ; marble busts of great characters adorn the staircase ; the drawing-room boasts of some respectable modern pictures, and the French bronzes and Dresden china show that they had been selected and arranged with unimpeachable taste. Our Bengalee finds himself so thoroughly comfortable, and so much at home, that he willingly dismisses from day to day the irksome task of seeking a house for himself. The appearance, however, of Mivart's

monthly bill reminds him that, at the rate charged for his apartments, he would be spending in three months the sum he had allotted for his twelve months' rent. This will not do. Mivart is summoned, but convinces him that, considering the expense of keeping the apartments when empty, and the brief period during which they can be sure of finding tenants, the charge is moderate. Yet something must be done: he cannot afford to remain on these terms, but is loath to go; and finally he proposes to Mivart to buy the house as it stands. An hour is required for consideration, and Mivart is willing to take for the house (the 80 years' lease had recently cost him £5000), with its kitchen utensils, plate, furniture, pictures, sculpture, china, and linen, a sum of £10,000. The bargain is closed, and, with the first day of the next quarter, our Indian friend transfers to Mivart £10,000 consols, and becomes his own tenant.

Up to this period he had paid Income Tax on £300, the interest of this portion of his consols, and Mivart had returned to the Commissioners the net rent received from his house and furniture in Brook Street. Mivart will now contribute the tax on the interest of £10,000, but will the new proprietor of 41 Brook Street pay the tax on the annual value of his house and furniture? If he will not, then why were they assessed when they were the property of Mivart? And is the Exchequer to lose its claim upon a certain pro-

perty because the tenant in use has become the owner?

A very large capital must be employed in furnishing and decorating houses by builders and upholsterers, whose business it is to let them furnished. These men are required to return for taxation the rent which represents the interest of the capital invested in that furniture; and if (which I do not question) it is right that they should be so taxed, why should the proprietor of the house adjoining theirs except his furniture because he uses it himself?

Upon principle, I can find no ground for the remission of the Income Tax on furniture and works of art, and I can hardly, without a smile, advert to the fanciful plea, that such a tax would discourage art, and rob the amateur of the satisfaction he should derive from his possessions. Lord A. or Mr. B. would cease to gaze with pleasure on his Landseer or his Stanfield, if the thought arose that it cost him in tribute to the Income Tax the frightful sum of 8*s.* 9*d.*\* a year, or a trifle more than a farthing a day, though the while he may sip his claret with no dread of its flavour being soured, or its fragrance lost, through the recollection that the Customs levy eighteenpence upon every bottle that he drains.

Such exquisite sentimentality was not to be expected from gentlemen who sturdily refuse any

\* 8*s.* 9*d.* is 7*d.* on £15, the interest of £500.

concession to the laborious tradesman, when he exposes to them, in his yearly gains, together with the fund of his present maintenance, the dependence of his future years.

Mr. Pressly's objections to a tax upon *unproductive property*, are simply, "that parties would not make returns of such property—that it could not be estimated by the assessors, and that its collection would be therefore impracticable." Forcible reasons these, if true, but Mr. Pressly seems to me to overrate the difficulties. In the first place let us narrow his field of enquiry—wine and jewels have really no place in it. Wine in the consumer's cellar is a part of his household stores—it has been purchased out of income—has been taxed when so purchased, and is no more to be reckoned "capital" than the preserves in the pantry, or the poultry in the larder. Personal apparel has also passed through the ordeal of expenditure, and jewels, though in some instances both important in value, and durable in nature, must practically pass as personal appendages. We are thus reduced to the items which constitute, indispensably, usefully, or agreeably, the furniture of a house. Whatever you could find in the house prepared by Mr. Mivart for his Indian guest, whatever therefore constituted to *him* a productive property, that I contend you ought to tax, though misnamed "unproductive."

And for the difficulty of getting returns. The first valuation is that of the owner; ordinarily his



furniture bears some proportionate value to his house; you can assess the one, why not the other, at your own valuation, if his does not satisfy you? Pictures and works of art are usually well known; they may be inspected if necessary, and I cannot think with Mr. Pressly, that this would be a constantly recurring labour. A man's house, with its furniture and contents once arranged, does not often vary, but at the worst you need but require from noblemen and gentlemen the self-assessment which you now demand from manufacturers and tradesmen. Equipages ought of course to be assessed, or Mr. Dickinson would have good reason to complain that the horses which were taxed when they were on job, were freed as soon as his customer had bought them.

Under the Acts of 1798 and 1803, the dividends of money in our Funds belonging to foreigners were exempt from taxation. This exemption has not been revived in the Act of 1842, and its omission is quite justifiable. In following out the principle of levying the tax on income wherever you find the property which produces it, you take no cognizance of the owner's nationality; and the foreigner who, for the sake of security, invests money in our Funds, suffers no wrong if he is required to contribute to the support of the Government which provides that security. But the clearer and stronger the argument for taxing the interest of our public debt, even when

due to foreigners, the less justifiable appears the practice of taxing, upon equal terms, the interest received by English subjects from foreign property. All such property is beyond your reach: its annual products accrue without your protection, and they are liable, and in many instances are subjected, to a domestic income tax before their transmission to this country.

One of the means hitherto pursued for levying the income tax on the dividends of Foreign Stocks,—viz. requiring the agents charged with their payment to deduct it from the interest due by their employers,—is an intervention between foreign States and their creditors, unwarrantable by the law of nations, and justifiable only upon the presumption that the bondholders assent to the arrangement as a matter of convenience.

The proportion, however, over which you may exercise this arbitrary power is small when compared with the amount annually accruing from the same source. Of the foreign dividends payable here, many are payable also abroad, at the option of the bondholder, and a large residue is payable exclusively abroad, and is remitted to this country through the ordinary process of trade. And as through the process of trade foreign engagements are fulfilled towards this country, so it is through the same medium that they are first contracted. The traders, connected by their profession with any particular country, are ordinarily and natu-

rally the first to lend money upon its State Bonds ; but as any State acquires a reputation for punctuality and integrity, its loans obtain a wider currency here, and ultimately are selected even for private investments. Still the origin and introduction of all such securities is commercial, and it would be impossible to draw a line between profits arising from foreign possessions—foreign trade—foreign manufactures—foreign companies (railways or other)—and foreign bonds, whether given by individuals, corporations, or states.

Incomes arising from each and all of these sources must, in principle, be scheduled with profits of trade, and with them be taxed at the lower rate applicable to incomes of the second class.

I could not conclude these remarks without acknowledging the obligations due by the whole community to Mr. Hume, for originating the Committee of Inquiry on the Property and Income Tax, for the able manner in which he brought into relief the prominent features in the evidence of the several witnesses, and for the interesting Draft Report which he submitted to the Committee, and embodied (unadopted), in the record of their proceedings.

Upon some apparent and some real disagreements between my own suggestions and the recommendations in Mr. Hume's Report, I must briefly observe—

Mr. Hume would wish "the Tax to become, in "the strict sense of the word, a *Property Tax*,"

by laying it on the capitalized value of the property, labour, and skill of the community. But, as he subsequently observes, "a tax, when it is assessed equitably on the value of the property, is also assessed equitably on the average profits of that property."

This is quite true, and therefore what Mr. Hume wishes to call a "Property Tax" might be essentially the same in its nature and incidence with what I prefer calling "*Income Tax*."

Admitting income to be the fund out of which the tax is to be received, Mr. Hume would call the tax "Property Tax" because, after converting all incomes into Capital or Property, he would then make that property the measure or scale by which the assessment should be applied.

This additional process of calculation is to be approved, however, only if it be shown that it can be always effected, and that the equitable assessment of income can in no more simple manner be attained. I quite agree with the experienced witnesses who affirm that the returns necessary for capitalizing professional incomes never would be procured. In anticipation, indeed, of such a result, Mr. Hume recommends "that where persons in trade, or farmers, do not or will not return their age, and the amount of capital in the business, as well as the profit, no allowance can be made for the lower value of the life income; these profits must be taxed at about sixteen years purchase."

This is, in fact, compounding with professions and trades for an age of *forty*, and the consequence would be that every young man would reserve his age, and every old man would give his.

With reference, again, to the property of persons engaged in farms, manufactures, commerce, professions, and offices, consisting partly of stock, and partly of the direct produce of skill and industry, Mr. Hume thinks that "the simplest course would be to tax the stock on its value, and after deducting the interest on such capital, tax the rest of the industrial income at its capitalized value."

Doubtless in the creation of professional gains, there is a concurrence of both elementary sources of income, capital, and labour, and the term capital here acquires a very wide signification. "Every thing productive of, or exchangeable for value," is practically a true definition of capital, and thus not only the merchandize of the trader, the mill of the manufacturer, and the stock of the farmer, but the medical science of the physician, the musical skill of the organist, and the cultivated voice of the vocalist, are capital. If practicable it might be quite correct to assess separately the capital, and the labour engaged in producing each of their incomes; and, if you did so, you would assess at one rate the interest estimated as produce of capital; at another, and much lower rate, the produce of the labour itself. But a separate assessment of the fruits of labour and capital is unattainable. In well-con-

ducted mercantile and manufacturing establishments a return of the capital engaged might be given, but the larger portion even of traders neither could nor would make the necessary returns, and no physician, lawyer, or musician, could be expected to furnish them.

A medium rate upon the products of capital and labour combined must satisfy the requirements of justice, and the consideration of age, in professional incomes, be dispensed with, as causing a needless complexity.

Mr. Hume adopts (I infer, from the 23rd page of his Report,) the idea of charging a life tenant with a portion only of the tax due from the property he holds: the inefficacy of this proposition I have earlier endeavoured to expose; but I leave the points of difference, to notice, with extreme satisfaction, the recommendation of Mr. Hume's Report upon the subject of Terminable Annuities. The mode in which I propose to treat them is in its effect precisely the same as the one he recommends.

It remains for me to recapitulate the principles and positions which it has been my endeavour to establish :—

1. That direct taxation, if it be continuous, should be levied upon *income*.
2. That incomes may be divided into three classes.
  1. The products of property.
  2. The products of property and labour combined.
  3. The products of labour.

3. That the incomes of the 1st and 2nd class are exclusively the proper subjects of taxation.
4. That the limit of expenditure in each class should be the limit of assessment for taxation.
5. That the vast increase in the property or capital of the country establishes the fact that a large proportion of annual income is saved.
6. That for the purpose of their relative assessment, incomes of the 1st class may be assumed to be expended in the proportion of 9-10ths, and incomes of the 2nd class in the proportion of 6-10ths.
7. That if, while on incomes of the 1st class the rate of assessment is 9, the assessment on incomes of the 2nd class is more than 6, the latter is partially an assessment on capital.
8. That when, as in the case of Terminable Annuities, capital and interest are combined in the same payment, the Income Tax should be levied on the interest only.
9. That income of the 1st class is not affected in its liability to the highest scale of assessment, by the tenure of the possessor.

I have alluded to the transactions in Terminable Annuities arising out of the limitation of the Income Tax to England, Wales, and Scotland. But I purposely abstain from any argument in favour of levying the Tax in Ireland, lest I should weaken the force of the obvious anomaly, that the portion of the

British Isles in which property is most dependent for its value upon the security which good government provides, and in which the provision of that security is most costly, should be the portion exempted from this mode of contribution to the public revenue.

In the Schedules A and B, which I append, will be found the principal descriptions of Income, ranked each in its own class, together with such remarks as its position requires.

It would be undesirable to fix the rate of assessment at less than 9*d.* in the pound on Schedule A., and 6*d.* in the pound on Schedule B. At these rates the Tax would produce certainly more than it does now. Beyond 1*s.* and 8*d.* it would be injudicious to raise the rates, dependent as you must be for a large portion of the Tax on the co-operation of the Tax-payers. But the additional revenue which would be raised by such an elevation of the rates would permit the remission of various Excise and Customs duties, which still operate injuriously upon the industry, the habits, and the comforts of the people.

I have the honour to be,

Sir,

Your most obedient Servant,

J. G. HUBBARD.

LONDON, Nov. 5, 1852.



## APPENDIX.

TABLE, showing, according to the Age of the Annuitant, what proportion of £100, in any Life Annuity, is *Interest*, and what the *Tax* thereon.—Interest of Capital is assumed to be 3 per Cent.

Age of Annuitant.	Interest Paid in every £100.	Tax thereon at 1s. in the £.
60	30·17	1·51
61	29·11	1·45
62	28·06	1·40
63	27·01	1·35
64	25·98	1·30
65	24·96	1·25
66	23·95	1·20
67	22·95	1·15
68	21·97	1·10
69	21·00	1·05
70	20·05	1·00
71	19·12	·96
72	18·22	·91
73	17·33	·87
74	16·47	·82
75	15·64	·78
76	14·83	·74
77	14·05	·70
78	13·29	·66
79	12·57	·63
80	11·87	·60

*Ex.*—If A B, aged 65, has an Annuity of £1,165: then £1,165  $\times$  24·96 = £290. 15s. 8d., the *Interest*; or £1,165  $\times$  1·25 = £14. 11s. 3d., the *Tax*.

TABLE, showing, according to the Unexpired Term of an Annuity, what proportion of every £100 of such Annuity is *Interest*, and what the *Tax* thereon.—Interest of Capital is assumed to be 3 per Cent.

Unexpired Term of Annuity.	Interest Paid in every £100.	Tax thereon at 1s. in the £.
20	44·87	2·24
19	43·21	2·16
18	41·50	2·07
17	39·72	1·99
16	37·90	1·90
15	36·02	1·80
14	34·10	1·71
13	33·10	1·65
12	30·04	1·50
11	27·93	1·40
10	25·75	1·29
9	23·51	1·18
8	21·19	1·06
7	18·81	·94
6	16·36	·82
5	13·83	·69
4	11·23	·56
3	8·54	·43
2	5·78	·29
1	2·93	·12

*Ex.*—If an Annuity of £1,165 has 8 years to run: then £1,165  $\times$  21·19 = £246. 17s. 3d., the *Interest*; or £1,165  $\times$  1·06 = £12. 6s. 9d., the *Tax*.

**A.—SCHEDULE OF INCOMES *chargeable at***  
**1s. (or 9d.) in the £.**

SOURCE OF INCOME.	DEDUCTIONS FOR	ON WHAT CHARGEABLE.
Annuities for life .	} Capital repaid .	Interest.
Annuities for years .		
Annuities, perpetual	} None . . . .	Interest.
Loans and mortgages		
Companies, viz. :—	} None . . . .	Dividends.
Railway . . . .		
Dock . . . .		
Canal . . . .		
Mining . . . .		
Banking . . . .		
Insurance . . . .		
Tithes . . . .	{ Repairs, agency, } rates, stipend .	Net receipts.
Tithe rent charge .		
Land rental . . . .	Repairs, agency	Net rental.
Land in occupation .	. . . . .	Net rental by valuation.
Houses rental. . . .	Repairs, agency	Net rental.
Houses in occupation	. . . . .	Net rental by valuation.
Furniture and effects	. . . . .	A per centage of value.

**B.—SCHEDULE OF INCOMES *chargeable at***  
**8d. (or 6d.) in the £.**

SOURCE OF INCOME.	DEDUCTIONS.	ON WHAT CHARGEABLE.
Farms . . . . .	} . . . . .	Net profits.
Manufactures . . . .		
Trade . . . . .		
Foreign property . .		
Ships . . . . .		
Professions . . . .	{ Professional ex- } penses. . . . }	Net receipts.
Salaries . . . . .		
	. . . . .	Amount received.

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# THE CURRENCY

CONSIDERED WITH A VIEW TO THE

## EFFECTUAL PREVENTION OF PANICS.

FOLLOWED BY

## OBSERVATIONS ON THE SUBJECT.

BY

REUBEN BROWNING.

LONDON:

E. & F. N. SPON, 48, CHARING CROSS.

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## P R E F A C E.

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NUMEROUS works of every degree of merit have been written, and are still constantly published on the question of Currency. Yet the truths propounded in most of them have been necessarily without effect, owing to an almost uniform want of classification.

The aspects of the subject are indeed multifarious, and the difficulties of estimating properly their varied import so overwhelming, that most treatises, although exhibiting evidence of talent, tend to augment rather than to remove the confusion naturally attached to so intricate an inquiry. If, in the face of these facts, and especially of the distinguished ability and experience of those who oppose all change in the present law, another attempt at illustrating the subject be justified, the writer's chief endeavour should be to make his production as precise and plain as possible.

Under this impression the Author begs to submit the following remarks, trusting that they will afford a palpable view of the important subject, without unduly taxing the reader's patience.

The following recent letter in the *Reporter*, from the Chairman of the Currency Reform Association, will no doubt be interesting, being in reference to the various proposals submitted to

that body, upon which it may be supposed the utmost attention has been bestowed:—

“41, YORK TERRACE, REGENT’S PARK,

“10th October, 1866.

“MY DEAR SIR,

“In reply to your inquiries as to the different plans of Currency Reform which have been brought under the consideration of our committee, I beg to offer the following remarks:—

“1st. It has been proposed that the note currency of this country should be made entirely independent of gold by an issue of bank notes by the Government, payable in duties and taxes, and the withdrawal of the right of issuing notes by the Bank of England and the other banks. This proposal is probably sound in theory, but public opinion is evidently not far enough advanced to admit of its adoption at present.

“2nd. Another proposal is, that all restrictions on the issue of notes by the banks be withdrawn, so that we may have free trade in currency. This proposal comes from Scotland, and is evidently inadmissible, as an unlimited issue of bank notes would never answer, as they would soon fall into discredit.

“3rd. A third proposal is, that the Bank of England be allowed to issue as many notes as she pleases. The objection to this proposal is that the Bank could not, with safety to herself, issue more notes than she does, owing to the scarcity of gold. The Bank says, ‘Relieve us from the obligation to pay our notes in gold, and we will give you any quantity of notes, but not otherwise;’ so this proposal falls to the ground.

“4th. A fourth proposal is, that our present system should be continued, supplemented by a Government issue of notes payable in duties. The objection to this proposal is, that it would be somewhat complicated by the banks and the Government both being issuers of notes.

“5th. The proposal of the Currency Reform Association is decidedly the best, and one that will assuredly give us a satisfactory and safe system of currency. By it the Government will be the sole issuer of bank notes. These notes will be payable in gold as at present; but in the event of a scarcity of gold, the Government will be entitled to issue notes payable in duties as a legal tender. Without this safety valve no Government could undertake the responsibility; but with this provision it will be quite safe in so doing. As there need be no limit to



the issue of these notes, the country will not only then enjoy free trade in banking and commerce, but in currency as well; and who is able to assign a limit to the prosperity which is in store for this country when this great and comprehensive measure of Currency Reform is carried out?

“Very respectfully yours,

“A. ALISON.

“To JOHN ROBERT TAYLOR, Esq.”

The first of these proposals is therefore pronounced inadmissible; the second is repudiated on account of its want of limit to issues; the third is also acknowledged to be unfeasible, from scarcity of gold; the fourth is justly objected to on account of the complication inseparable from two sorts of issues; while the fifth, proposed by the Association itself, and considered the best, is merely a perpetuation of the present system, with *unlimited issues*, the Government taking the place of the Bank of England, which, “although declared to be safe and satisfactory,” is virtually self-condemned, since, in the second proposal, it is above averred that unlimited issues “would never answer.”

The subsequent reflections on the currency imply a criticism of the views set forth in the letter.

The daily improvement in the Money Market induces the author to remark, that on the first symptoms of approaching quietude after the late monetary hurricane, while its thunder still reverberated, every one was calling on all sides for protection against a recurrence of similar troubles; the Chancellor of the Exchequer was daily besieged, in the hope of something being done to accomplish that object—all without avail; the

consideration of the matter being postponed by him until after the parliamentary recess. So urgent was the question then thought, that Mr. Watkin, in August last, brought it before the House of Commons, and on account of its importance, a morning session was accorded, in order more conveniently to consider whether or not a Royal Commission should be appointed to examine thoroughly its merits. A commission, however, was not ordered. The virtue of patience was put to the test, the solution of this knotty enigma being deferred till the opening of Parliament; and thus it stands at present.

Meanwhile appearances still improve; the sick man is recovering; his fever and paroxysms are past; his exhaustion is giving way to returning strength; and, indeed, he now thinks that there is no need of a doctor—verifying the old adage:—

“When the Devil was sick, the Devil a saint would be;  
But now he is well, the Devil a saint is he.”

And thus, at the opening of the next session, in the midst of the probable din of Reform, this highly important matter stands a chance of being smothered, perhaps only to resuscitate when another panic, certain under the existing system not to be far off, shall cause a relapse; and the condition of the sick man will be infinitely more precarious than before.

REUBEN BROWNING.

## REFLECTIONS ON THE CURRENCY.

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AXIOM I.—That Fixity in the Currency, and a rate of Discount never exceeding Four per Cent., would tend to prevent Panics.

In considering this question, the object in view is to relieve the commercial world from the embarrassment of crises frequent in occurrence, and resulting in the loss of so many millions by the ruinous fall in prices necessarily attending such catastrophes. This was professedly the intention of Sir Robert Peel's Bill. Though that measure has signally failed in its main object, much praise is nevertheless due to its author, for it has secured the credit of the bank note, years ago so malignantly and unjustly aspersed. By experience we have been taught that panics invariably commence when there is a contraction of issues in the currency. Even if this do not originate the panic, it never fails to aggravate its evils. Mr. Isaac Perèire, a very profound writer on the subject, says (in *Constitution des Banques*, page 64) that the raising of the rate of discount (another name for contracting issues) is "*the true, the sole cause of crises.*" The author of the *People's Blue Book*, page 79, observes: "All money panics have been increased in intensity by too great and sudden contractions of the currency, and

by the sudden and enormous rise in the rate of discount." Mr. Leon Faucher in his work on *Political Economy*, vol. ii., p. 292, even declares it to be a sure sign of a barbarous age to permit a currency to be thus altered in amount. His words are :—"A mesure que la civilisation fait des progrès, le signe monétaire acquiert de la *fixité*, de la constance; il devient en quelque sort invariable, mais là où le signe monétaire est variable, là où il est permis de l'altérer, tenez pour certain que l'on vit encore dans la barbarie."\*

Experience having so palpably justified the truth of these opinions, it is perhaps useless to adduce additional authorities.

The views quoted seem to confirm the axiom of Mr. Cobbett, that the cardinal point in a perfect currency must be *fixity in amount*. His words in his *Register* (January, 1821, vol. ii., p. 55) are as follows :—"It is of no consequence to a community, or any part of it, whether there be much or whether there be little money circulating in such community, provided, *mind, that there be no fluctuation in the quantity*; but if there be fluctuation in the quantity, if there be a change from a small to a large quantity, or from a great to a small one, then *all the affairs* of the community experience *disturbance*."

So that if there be a fixed amount of currency, that is to say, of notes allowed to be created, panics could not exist, provided that, in harmony with the spirit of

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\* "As civilization advances, the currency acquires a continued fixity; it becomes in a certain degree invariable, but where the currency is variable, where it is permitted to alter it, be assured that such is a state of barbarism."

this axiom, such notes be in circulation, *not in reserve*, which can only be so, by ever keeping the rate of discount for commercial bills at 4 or at a *less* rate per cent.

A fixed rate of 4 per cent. discount was insisted upon in France by the Great Napoleon on more than one occasion. His letter to M. Mollien, Minister of the Treasury,\* is an important historic document, which raises the matter out of the sphere of chimerical raving to which some parties have consigned it. The practicability of the proposal has been proved by the fact that this rate was steadily maintained in France for years, and that the country was absolutely free from panics. It is, moreover, now fully corroborated by the circumstance, that for a considerable time discount at Paris has been at 4 per cent. and even less, while in London it has for months ruled at 10 per cent.

This likewise defeats the allegation that the rate of discount can only be regulated by the law of supply and demand, by which it must find its level. It is, however, averred that to fix a rate of discount is objectionable and unjust, because interfering with the right of every one to use his own property as he pleases. This principle will be readily admitted as far as it concerns discounting in Lombard Street, or relates to other

\* (Vide *Perèire, Constitution des Banques*, p. 141.) It runs as follows:—

“Lacken, 15 Mai, 1810.

“Je reçois votre lettre du 8. Ce que vous devez dire au gouverneur de la Banque et aux Régents, c’est qu’ils doivent écrire en lettres d’or, dans le lieu de leurs Assemblées, ces mots: *Quel est le but de la Banque de France? D’escompter les crédits de toutes les maisons de commerce à quatre pour cent.*

“NAPOLÉON.”

bankers ; but it does not apply to the Bank of England as a National Establishment, which ought to be solely the conservator and distributor of the currency of the country, as it will be suggested in subsequent propositions of this treatise, that the use of the currency should be conceded to the Bank of England gratuitously. If, in such case, the Government, with the view of fostering the all-important interests of commerce, should forego the large advantages derivable from the issue or guarantee of the whole currency, there is no just reason why it should not restrict the discount to whatever rate, in its judgment, it may be considered right for commerce to bear.

But it is alleged that when speculation is rife, the whole of the currency would be absorbed by speculative bills, while those of legitimate commerce would be excluded from the intended advantage. This is, however, an unsupported assumption ; for if really commercial bills secured the preference, those issued through speculation would have to be exchanged in Lombard Street or elsewhere. They would thus be subjected, according to their merits, to whatever increased rate of discount might be demanded ; so that in this manner objectionable over-speculation would have to pay its own penalty, which, under the present system, is indiscriminately inflicted on legitimate commerce and unjustifiable operations. It is idle to assert that it is impossible to know whether bills are issued from speculation or not. A discount broker knows, as it were instinctively, what a bill is when he sees it ; and if he do not, it is his duty, which, in his own interest, he will hardly

neglect, to obtain the necessary information. But, generally speaking, he perceives the truth at a glance. Hence experience justifies the conclusion, that fixity in the amount of currency, and a *maximum rate of discount* never exceeding 4 per cent., may be a cure for panics. It is now our duty to show how fixity can be accomplished.

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AXIOM II.—That Fixity, the paramount essential in a perfect currency, can *never exist* under the present law, requiring the issues to be governed by *the quantity of gold* on hand, while the law exacts the immediate convertibility of the note.

If fixity in amount be admitted as an indispensable requirement for a perfect currency, gold should certainly not have been selected as the standard of issue; for not only does it make us dependent upon the quantity acquired, but even when obtained, we are constantly subjected to all the influences of its varying universal demand, rendering the possession of it ever uncertain. Among those causes may be especially mentioned the weather, as at this moment, in the harvest season, it must be clearly evident to every one who reflects on the subject; for if a bad harvest should happen, what might be the consequence? Not merely a renewal of 10, but perhaps 15 per cent. discount; so that the mighty interests of our commerce might be paralysed and ruined by the *fickle wind* which, governing the weather, influences our issues. *Thus our all-important standard of issue is virtually the weather-cock!*

Another grave circumstance connected with the sad operation of the Act of 1844, is the fact that the Bank of England, by it, is compelled to supply gold to all the world at the price of 77s. 10½*d.* per ounce to the extent of its issues, so long as the law is maintained. The obligation of purchasing gold at 77s. 9*d.*, and the compulsory sale of it at 77s. 10½*d.* per ounce, the margin being 3s. 2*d.* per cent., if viewed as a mercantile contract, is supremely ridiculous. This fixed price for gold (Note A) renders it certain to be withdrawn immediately there is a demand abroad at a higher price, taking the cost of transit into consideration.

Thus we are exposed to all the contingencies of external and foreign influence, in order to maintain the immediate convertibility of the note.

Let us proceed to inquire whether there is any overwhelming advantage in, or necessity for, such convertibility.

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AXIOM III.—That the immediate convertibility of the note, which is the principal hindrance to a solution of the difficulty, is not really necessary.

Previous to the resumption of cash payments in 1819, the value of the Bank of England note was violently assailed by many persons. It is, however, asserted that its credit never was generally doubted; still, with the fact then before the public, that guineas had been sold on the Continent at 28 or 29 shillings each, it must be allowed that a certain mistrust did



exist, at any rate, in the least loyal portion of the community.

The easiest mode of allaying this feeling was considered to be a physical appeal to the senses, in the palpable, although deceptive evidence of sounding metal by convertibility.

They who had been taught by the writers of the time to believe Bank notes "flimsy rags," readily received gold as a proof of the fallacy of such assertions. They enjoyed the almost forgotten sight of it, admired the royal effigy on the shining coin, sounded it on the counter, and threw up their hats for joy, extolling Sir Robert Peel, and denouncing Cobbett and others as silly fellows.

This excitement in the mass was increased by the withdrawal of the £1 and £2 notes, the forgery of which had for a long time fed the gallows with hundreds of victims. So far, therefore, as concerned improvement in the common credit of the note, the measure was decidedly successful. Yet it was actually no proof; for if *all the notes issued* by the Bank of England had then been presented, gold could not have been supplied. The Bank must have stopped, as it would now, were such a contingency to happen, the note being based on *credit jointly with gold*. Some persons contend that under the Act of 1844, such a general demand for gold is visionary and impossible. Let but a doubt be entertained on the credit portion of the note, and in an instant evidence would exist that it is neither visionary nor impossible. Happily there is now no doubt whatever as to the present security of the national guarantee for one-half of the note, which is better than gold, so

long as *issues are limited*. It is only in the case of *unlimited* issues of notes, that, in the interest of the public, their immediate *convertibility* into gold is imperatively demanded, such being the palpable test of credit in time of panic. In extreme cases, when the Bank of England under permission of the Government extends its issues beyond the legally prescribed amount, the immediate total convertibility of the note becomes an impossibility, and the continuance of the partial payment in gold is a mere chance, dependent on the will of the holders of notes. It will be proposed hereafter to supply the guarantee of the nation for the *whole fixed currency*, in place of gold, by which immediate convertibility, although it would in all probability continue without interruption for years, would no longer be necessary.

It must be admitted that in the case of such guarantee for the whole currency, the gold now in store at the Bank might by foreign demand be withdrawn, and necessitate the re-issue of £1 and £2 notes, of which for such contingency an adequate supply must be prepared. It is, however, doubtful if such contingency will ever happen, for the following reasons:—The moment it is known that the issues of the Bank no longer depend on the amount of gold in its vaults, its price would fall, for naturally that establishment, no longer requiring such an immense store, would dispose of it in the most favourable way possible. If the compulsion on the Bank to buy gold at 77s. 9d. per ounce be rescinded, the right of issuing it at 77s. 10½d. per ounce would in justice decidedly be claimed and

exercised by the Bank, in order to recover the loss entailed by the long continued purchases at the former price. Gold from California and Australia would have to receive a less price than now; and the result would be that the bank note would then be sought after, perhaps at a premium, in order to avoid the inconvenience and risk attendant on the receipt of so much gold in coin.

This inconvenience would completely open the eyes of the multitude as to the futility of gold payments. So far, for the present time, the paying of gold might continue, there being a large store on hand. How would it be afterwards? By the removal of gold as the standard of issue (not the standard of value) that commodity would be sold at its market price; if foreigners wanting gold came into the market for a large quantity, the price would rise, and the owner of the gold would reap the advantage. The commercial world would not then be affected by the export of gold, for the notes or currency with which it would be bought would remain in circulation, and until the price of gold on the market reached 77*s.* 10½*d.*, it would be purchased there. Then only would notes of £1 and £2 be required. The price of gold naturally must fall when our Legislature leaves it to itself.

Convertibility is therefore not essentially necessary. It is convenient, and might be maintained at a comparatively very low cost, not, as at present, by injury to our trade, and the frequent losses of, many millions to the commercial world.

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AXIOM IV.—If gold cease to be the standard of issues, something equally secure must be substituted.

Gold, for the very grave causes already stated, ought to cease to be the standard of issue, but remain the standard of value, at the Mint price of 77s. 10½d. per ounce. At a future period this price ought to be reconsidered. It should properly remain at present, with a view to indemnify the Bank of England for the cost of so large a store of gold now on hand. The world hitherto has not experienced the full benefit which might have been expected from the discovery of gold in California, Australia, and elsewhere, by the Bank Act of 1844, obliging that establishment to deliver it to all the world at the Mint price, to the extent of its notes in circulation. What, then, must be supplied in its place? Experience proves abundantly that half the value of the note under the present system, against the Government guarantee, in the debt due to the Bank of England, is perfectly satisfactory to the country. If one-half be thus so well secured, why cannot the whole be treated in like manner? By such a change the much dreaded contraction of issues would become unnecessary, and panics avoided. In order to settle this great question, it seems desirable that the Government should authorize the (*Note B*) *Bank of England* to issue notes for thirty millions (or for such amount as may hereafter be fixed), to be entirely under the national responsibility, and in form similar to those now issued, excepting in some slight variation for distinction from those now in circulation, to be gradually withdrawn. Of these

national notes, fifteen millions should be retained by the Bank of England, in discharge of the debt due by the Government; the balance to be reserved by the Bank upon the following conditions:—

That the Bank be considered solely as the conservator and distributor of the national *currency of the country*, and renounce its private banking business; that it shall always discount commercial bills at 4 *per cent.*, not only with the balance above stated, but with the fifteen millions of its own capital thus repaid, for which hitherto it has received from the Government £450,000 per annum, then to be discontinued; so that, by accepting such conditions:—

1st. The Bank would acquire, in employing the fifteen millions in discount at 4 per cent. . . . .	£600,000
Instead of 3 per cent. hitherto paid by the Government . . . . .	450,000
Being a gain of . . . . .	£150,000
2nd. It would acquire by the use of the reserved balance (if fixed at thirty mil- lions) . . . . .	600,000
	<hr/> £750,000

And as the use of this balance is proposed to be gratuitous, the cost of making the notes and other contingent expenses should be defrayed by the Bank.

That the Bank continue to be charged with the payment of the dividends on the public funds, upon the same conditions as at present.

That the Bank shall also continue to be the depository of the moneys for the Receiver-General of Taxes on account of the Government, and have the right of using them, in discounting commercial bills at 4 per cent., or less than that rate, from which it may be estimated £150,000 would be derived.

That the right to pay in gold may continue as long as the present store lasts, in order to recover the amount of its cost; and that in the improbable case of the discontinuance of gold payments, notes of £1 and £2 shall be re-issued.

On the other hand, the Government should bind itself to find gold at the rate of 77s. 10½*d.* per ounce standard to all parties against Bank notes, within the space of one month after notice, upon the deposit of 10 per cent. on the amount required, as security to the Government, that at the expiration of the month, the balance would be paid, and the gold taken away. The object of this stipulation is to remove from the minds of holders of notes any doubts as to the full ultimate security of their nominal value. Interest on the said deposit at 4 per cent., or at less if the value of money be lower, to be allowed to the applicant for gold, to be defrayed by the Bank, as it will have the use of the money.

If the Bank accept this office, it will be in receipt of a revenue, supposing it always to keep the currency employed at 4 per cent. (Note *C*) (of which there is no doubt), equal to . . . . . £1,200,000

Brought forward . . . . .	£1,200,000
From the Government, for commission on paying the dividends on the debt, about	200,000
From the use of the public deposits by discounting bills, about . . . . .	150,000
	<hr/>
	£1,550,000
Less expenses of the establishment, about	200,000
	<hr/>
	£1,350,000

which on fifteen millions will be above 9 per cent.

The half-yearly dividend on Bank stock in March, 1866, was at  $5\frac{1}{4}$  per cent. ; that declared in the following September, from abnormal circumstances, the largest during a period of sixty years,  $6\frac{1}{2}$  per cent., making an annual dividend of  $11\frac{3}{4}$  per cent. ;\* while in ordinary cases, when panics have not intervened, the usual dividend has long been about  $4\frac{1}{2}$  per cent. half-yearly, or 9 per cent. per annum ; so that the Bank of England would not in any way be injured by the proposed

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\* In referring to this dividend, it is but justice to the Bank Directors to allude to the frequent charge that has been and is still occasionally made, of their raising the rate of discount for personal advantage, and to show that such an allegation is ridiculous and without the least foundation.

This will appear in a moment if we take into consideration the qualification stock of a Director, namely £2,000. The dividend, even at a period of unprecedented continuance of 10 per cent. discount, has only reached for the last year  $11\frac{3}{4}$  per cent., and the usual average of annual dividends being 9 per cent., the difference is  $2\frac{3}{4}$  per cent. upon £2,000, or £55 ! The Directors of the Bank being, generally speaking, merchants of high respectability, their maligners may be asked if it be likely that for £55, the personal advantage acquired by a Director in augmented dividend, he would expose his own private business as a merchant (discounting at least in the course of the year bills for £100,000) to an increase of discount of £6,000, the difference between 4 and 10 per cent. discount ?

arrangement, while the Government would gain by the cessation of the interest on the fifteen millions at 3 per cent., or £450,000.

The Bank, in fulfilling this mission, and in its own interests, would always endeavour to keep the whole of the currency in circulation, as well as the Government deposits, by re-discounting bills when those previously taken became due. Private deposits *ought not to be received by the Bank*, for their amount unemployed would tend to contract the amount of the currency in the hands of the public, which, as far as possible, should always be the same in the aggregate. Nevertheless the Bank *ought to keep unused* the deposits (Note D) for the clearing banks and bankers, which are required for the settlement of the daily clearing accounts, otherwise the great advantage of economising the use of the currency by the clearing house might be disturbed, and an extension of the amount of the currency rendered necessary, which it is desirable should not take place.

Thus a comparative fixity in the currency in circulation sufficient to serve the object in view might be attained. This leads us to speak upon the amount to be issued.

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#### QUESTION AS TO THE AMOUNT OF THE CURRENCY TO BE ISSUED.

Although the amount of the currency in the foregoing observations has been set down casually at thirty millions, it is not pretended to fix such sum for the purpose ; that figure being assumed merely to illustrate the author's ideas, in the projected change of system.



The advocates for an increased amount of currency employ the apparently strong argument that trade and commerce have increased almost fourfold since 1844, when the Act passed, while the amount of currency is nearly the same as at that period. They maintain it to be absurd to suppose that four times as much commerce can be transacted with the same amount of money. This conclusion, though seeming at first sight rational, is specious in its application ; for, although there may be the same amount of money or currency, it must be borne in mind that it is not with the currency only that business is transacted. Commercial operations are performed partly by currency, but *chiefly* with the circulating medium in the form of bills for wholesale transactions and cheques for retail trade.

If we consider, that in 1844 where there was one banking account there are now at least five hundred, and that by the arrangements in the clearing house many millions are daily settled without a single bank note passing, the idea of the necessity of an increase in the amount of currency in proportion to the extension of trade may be safely repudiated ; for it will be found on investigation that there is more currency *in actual use* now than at that period.

The erroneous impression from the alleged argument arises in a confused idea of the functions of the currency, which, in discounting, is similar to the small change of the circulating medium, namely, commercial bills, the use of which may be compared to the silver coin with which we exchange the gold in our pockets. We do

not want it in large quantities, but always require it to be easily obtainable. By contrasting the actually coined silver supposed to be in circulation with the amount of gold coin in the hands of the public, we shall immediately arrive at the intention of this comparison. A large augmentation of currency is therefore not necessary on account of the increased business of the country. Indeed, it is much better that it be not increased, for any considerable extension of it would cause the price of everything to rise, and the result would be that private individuals could not afford to buy, and foreigners would cease to be purchasers of our goods, on account of the augmented cost of their production. Thus it might be the ruin of our commerce. The importance of any change in this respect is so great, that it demands the profound consideration of the most experienced economists. The author, therefore, shrinks from suggesting what extension might be effected without detriment to the community; he cannot, however, abstain from stating his opinion, that on no account it ought to exceed the amount of the revenue of the country, the latter being the real security of the note.

Thus it has been proved that fixity in the amount of the currency is a necessity—that such fixity cannot be maintained while the issues of the Bank are determined upon gold—that the immediate convertibility of the note, the principal impediment to a settlement of this great question, is not really necessary—that if gold cease to be the standard of issue, the national guarantee for the whole currency might be safely substituted for it; and

that in order to carry out the change, the Bank of England must renounce its private banking business, and become solely the conservator and distributor of the currency of the country, always discounting commercial bills at 4 per cent., or at a less rate if possible.

By the adoption of these principles there is every reason to believe that panics would be thoroughly harmless, if not altogether obviated.

“Εὐεγκά!”



## APPENDIX.

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THE preceding axioms and reflections contain the germ of a solution of the grand problem on the Currency Question requiring to be manipulated and matured by practical experience. The term of its gestation must be allowed; meanwhile, the following observations, the result of years of impartial consideration of the subject, may be useful:—

In spite of the recent improvement in the Money Market, and the dogmatic and contemptuous articles in the *Times* against every opponent to the Bank Act, it is not right for individuals impressed with the magnitude of our monetary dangers, to refrain from efforts to remove them. The physician who has a patient afflicted with disease baffling his knowledge, never rests satisfied until he has discovered its cause; in order to ascertain it, he rigidly inquires into the manner of his patient's living, and if he find that he is in the habit of taking certain food or wine by which the disease is strikingly increased, *he forthwith prescribes its discontinuance*. To discover that which aggravates the malady is a great point gained, and he avails himself of such knowledge,

whereby in all probability the real cause of the complaint will ultimately be found out.

What is here stated in regard to natural disease, may be applied to panics in the Money Market ; for, figuratively, no disease can be more dreadful to the commercial body than the deplorable crises to which our existing monetary system exposes us. It would seem prudent, therefore, on the part of the Legislature, like the physician, to adopt a similar course. *In our monetary disease, we see that which invariably aggravates the calamity: it ought, therefore, to be discontinued.* For it cannot be denied, that on the first appearance of what is termed a "tightness in the market"—a panic in embryo—the contraction of the Bank issues naturally *augments* it. It is adding fuel to the fire which consumes us. "L'appetit vient en mangeant." There is no blame to the Bank of England, in the protection of its interests, for adopting this baneful course, which always must ensue, while its issues, as at present, depend upon the quantity of gold in its possession. Hence, let the least scarcity of the currency arise, no matter from what cause, over-speculation, foreign demand for gold for so many purposes, or the rate of exchange, the evil is sure to press upon the *whole commercial community*. The importance of this, with us especially, where commerce is the very soul of our wealth and position among nations, is too obvious to require a comment. Each great panic in losses has cost the country from 100 to 140 millions ! It is said, however, by some parties, that these immense losses are in reality no loss of wealth to the

nation, for "the country is not a single pound the poorer; what one man loses another gains;" so if goods are sold at 25 per cent. less than their cost, that the country obtains them at a cheaper rate.

Logically, this hypothesis may perhaps be maintained, but practice argues otherwise; for instance, if a manufacturer, at a certain cost, has made goods, the disposal of which in the ordinary course will produce a profit of 25 per cent., and by a panic has to sell them at 25 per cent. below their cost, the difference is 50 per cent. If the nation purchase these goods, the hypothesis may be true, but if foreigners buy them at less than they cost, how can there be no loss to the nation? Another nation thus gains what the manufacturer has lost.

With every feeling for free trade and of philanthropy towards the rest of the world, legislation ought, if possible, to prevent such a result. We may liberally love foreigners, but we love our own country better. In the face of this, it is sheer nonsense to say that the country is not a single pound the poorer. By such reasoning, however, it may perhaps be admitted that the general losses to the nation from panics are not so large as 100 to 140 millions; but our troubles and distress therefrom are nevertheless equally important, and casting aside the question of national loss, let the matter of distress alone be considered. Think of a thousand bankruptcies—mills and factories ceasing operations—thousands of private respectable establishments broken up—and hundreds of thousands of operatives out of employment, or seriously injured by the

effects of the rise and fall of the rate of discount, that alone being the source of such evils.

The subject is too serious to quibble upon. Is it not a fact that the *Gazette* by these panics is full of bankruptcies? Are not thousands of commercial parties, who depended upon quietude in commerce, thus suddenly brought to ruin? And further, consider those merchants who with difficulty have actually withstood the storm, how long it is before they can resume their course, how many orders from foreign countries or colonies they from prudence are obliged to refuse to execute.

Again, is it no national loss that our trade, usually increasing 15 millions a year, should be diminished, as in 1857, by 50 millions?

The truly honourable effort of Sir Robert Peel to prevent such commercial derangements, proved his conviction of the necessity of providing against them; unhappily his Bill of 1844 failed to attain that desirable object.

What was the cause of its failure? It is the compulsory and *immediate* convertibility of the note into gold, conducing to *uncertainty* in the *amount of issues*. Without such a stumbling-block, this wearying, this painful question would long since have been settled.

At the first glance convertibility seems to inspire the public mind with perfect confidence in the ultimate value of the note. Apart from this, the use of gold would be immediately condemned; indeed, large payments of it, for purposes of commerce, would in our extensive trade be an intolerable nuisance.



That immediate convertibility is neither necessary nor *possible*, is evident, since, for one-half of the notes in circulation there is *no gold provided*. Of this fact the public are aware, and are nevertheless satisfied. Thus, by the present system, though ostensibly on gold, reliance is evidently placed on credit, in the improbability of gold ever being generally demanded; consequently the power of convertibility *already depends upon a chance of public opinion*.

It is therefore a fallacy to say that the Bank note is secured on gold. No one doubts its security at this moment, not because he imagines that there is gold enough in deposit to pay it to him if demanded, but because of the protecting power of the Government to hold him harmless in reference to so large a portion of its nominal value.

The note is thus better secured to him than by the weekly returns of the quantity of gold in the Bank of England. For it must be remembered, although no one doubts the truth of these returns, that it is not impossible but that large portions thus stated to be there, may have been dishonestly abstracted from its store. We have known of many large robberies; we cannot of a certainty know whether the public may not be deceived in this instance. By this means the much vaunted security of gold may vanish. On credit, such as in the case of the Government debt to the Bank, we can rely with perfect confidence; for we know that the public revenue is seventy millions, and if a portion of it be pledged, neither falsification of accounts nor robberies

can affect the obligation. If public credit, therefore, has in it that sterling virtue, and has been tried in the case of *one-half the note, why should it not be employed for the whole?*

In Prussia, Saxony, and other German states, after long experience, *State Bank notes*, the sole currency of these countries, *not convertible*, have circulated, *never* under a depreciation. Neither do panics afflict them, *because the amount issued is fixed.*

It would seem, therefore, advisable (see page 16) that the whole currency, for whatever sum from circumstances it may seem necessary to adopt, should be *fixed* to be *issued by the Bank of England under the Government guarantee*, which security could not be otherwise than perfectly satisfactory to every holder of notes.

By fixity (see page 8) must be understood, firstly, for the security of the holders, *fixity in amount legally created*; secondly, *fixity in its issues* for the protection of the interests of commerce, aided by *fixity in the rate of discount* at 4 per cent. At present gold leaving the country is an object of our anxiety, from the deplorable consequences it occasions. Under the suggested system it would be a sign of prosperity, for we should thereby be sure that it had been exchanged for some more productive commodity. By making the Government answerable for the whole fixed circulation not *immediately* convertible, gold would become a marketable commodity, and thus take its course without the least restraint. The heavy tax now upon it, in the form of discount, would not exist to oppress our *whole commerce*,

but would fall *only upon* such operations as *especially needed gold*. The attention of the Legislature would have then to be directed to fixity in the amount of notes *in circulation*, by always discounting bills at 4 per cent., and causing the whole currency to be employed; by which gold would be an object only of secondary consideration.

In regard to the amount of the currency to be fixed, decidedly too many complainants against the present system denounce it in rabid cries about “monopoly” and “free trade in banking;” the latter would never answer, and the Government *ought not to permit any large extension of the currency*. Free trade in banking, as suggested by the Liverpool and Glasgow meetings, would be tenfold worse than the present system.

There is another point, that perhaps may be denounced as visionary; nevertheless, in this age of rapid movements, from which by unforeseen circumstances danger might happen. So large an amount of gold located in the Bank of England might be an object of foreign attack, in some moment of peculiar distress. By altering our system no such allurements need exist.

The proposal in the preceding reflections on the currency would do away with the immediate convertibility of the note, gold for which is to be only demanded after the space of a month, or such time as may be considered necessary.

By the suggested alteration of the system, the whole of the gold in the Bank will be set free. The artificial purchasing price of 77*s.* 9*d.* in connexion with the 1844

Act will no longer exist. The price of gold in the market must consequently fall, and the effects of the acquisition of gold from California, Australia, &c., will then become more apparent.

Gold on its arrival here will only be disposed of after ascertaining what it will fetch abroad, and where the highest price is, whether here or elsewhere, there it will find its resting-place.

As by such alteration the present value of gold would not be likely to continue, our sovereigns circulating for 77s. 10½*d.* per ounce, would thereby be sure not to be drawn away.

It must be borne in mind, that the proposed engagement by the Government (see page 18), for the convertibility of the note in a month, is merely to conciliate such persons as are horrified at non-convertibility. This stipulation is in reality useless, for there would not be any lack of gold; on the contrary, we should always have it in superabundance, so that we should indeed rather have to complain of gold payments being forced upon us by the Bank, until that establishment has got rid of its torpid unproductive treasure.

Such, it is supposed, will be the probable position; but let us consider the case when the Bank's store is exhausted. At the worst, it will be only the return for a short time to £1 and £2 notes. In the proposed alteration it is recommended that an adequate supply of these should be prepared for the contingency of not having gold ready, a precautionary measure only, which will not be likely to be needed. At present, every one

has the right of sending gold to be coined at the Mint at 77s. 10½*d.* per. oz. ; such ought not to continue.

If the price of gold in the market should go down, a profit might arise from the use of that right, which would be extremely inconvenient, as it might occasion a glut of gold coin, and interfere with the opportunity afforded to the Bank to get rid of its large store of gold without loss. But in spite of these appearances of a superabundance of gold, should a scarcity happen how is it to be supplied?

There is always a considerable balance of public deposits in the hands of the Bank, which might be used in the purchase of gold, whenever the latter was offered at cheap prices, to the extent of one or two millions; the gold thus bought should be immediately coined and delivered to the Bank on account of the public deposits.

If by accident the balance of deposits should not be sufficient, an issue of Exchequer Bills for short periods might be likewise employed. By this, however, a trivial loss would occur in the interest on such bills until their redemption.

On the other hand it may be said, suppose the price of gold should rise, and that gold could not be obtained at or under 77s. 10½*d.* What is to be done? In 1825 the Bank of England was short of gold, it was leaving the country fast, the late Mr. Rothschild was with the Directors a whole day, the result was that he engaged to turn the stream, and he so ably effected it, that in the course of a few months the Bank received about 10 millions of gold from abroad! And what was the

cost of this effort, which some superficially thinking persons stated was too heavy? It was merely that Mr. Rothschild sold to the Bank this requisite gold at 79s. per oz., being as compared with 77s. 10½*d.* a loss of 1½ per cent., or on the quantity supplied £144,000. This could more easily be done now than at that time. By this operation a panic was prevented, and its disastrous effects avoided. If we reckon the usual loss to commerce by great panics at 100 millions, how judicious does the employment of this £144,000 seem to have been: £144,000 given away against 100 millions saved by the country! Surely it would be wise on the part of the Government to pay that sum even annually, rather than expose the interests of commerce and of the revenue too, by panics, to such severe losses. The commercial body itself had better pay this fleabite in the shape of contribution, as a kind of insurance against such gigantic convulsions.

These points, already considered in the preceding axioms, are worthy of attention.

## ADDITIONAL OBSERVATIONS ON THE BANK ACT OF 1844.

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THE world has ever been subject to delusions. The longer they remain in force, the greater is the difficulty of removing them. When Galileo propounded the outline of the glorious solar system, subsequently confirmed by Newton, the obtuse intellect of his age, unable to disentangle itself from the delusive physical appearance of the sun's motion, attacked violently the principle and persecuted him, so that, for personal safety, he was compelled to abandon the truth by a recantation of what he had asserted. Nevertheless, on signing the document, stamping his foot on the ground, he made use of the memorable words, "Eppure si muove!"—"Still it moves!" Bigotry and ignorance were in the ascendant. The truth, then for a time in the background, was subsequently universally acknowledged.

So will it be with the Bank Act of 1844, another delusion, in like manner supported by the deceptive fascination of gold. Its opponents, conscious of the immense injury the Act inflicts, still laudably persisting in efforts to remove it, are denounced by the *Times* as old women and maniacs. The delusion is prevalent, and as so many of the advocates of the Act are men of high intellectual knowledge and experience, the difficulty of effecting a change is much augmented;

indeed, it renders the combat almost hopeless; but truth and perseverance must ultimately prevail. "Delenda est Carthago!"

The greatest enemy to such an effort is, that the opponents of the Bank Act, knowing that panics invariably commence in contraction of the circulating amount of the currency, are all desirous of having a considerable extension of it. This is also a delusion: no such thing is necessary; it would be ruinous to the interests of the country; and the astute supporters of the present system, perceiving this weak point, employ it adroitly in upsetting their applications. Let us, therefore, not fall into the same error, but examine the Bank Act upon other principles.

A Bank charged with the issue of the currency of a country, according to M. Perèire (*Constitution des Banques*, p. 24), essentially requires:—

1stly. To be possessed of a capital sufficient to protect the holder of its notes.

2ndly. This capital to be always available, not locked up.

3rdly. A sufficient quantity of specie, to secure the convertibility of the note.

Does the Bank of England possess these essentials?

1stly. As to *capital*, consisting of £15,000,000  
due by the Government; and of £18,000,000  
gold in its vaults

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Together . . . £33,000,000

The notes issued being for £33,000,000, this requirement is fulfilled.



2ndly. Are these always available? Certainly not. The fifteen millions due by the Government, although undeniable security, are not. The gold itself is only available to such amount as the Bank in its prudence thinks right to use, and thus there would remain seven millions uselessly locked up. So that of the thirty-three millions, there are only *eleven* millions available, and even this amount of gold is not immediately available, so small a portion of it being coined.

Gold, which is the professed basis of its issues, renders its capital unavailable immediately the notes are in circulation, as far as that portion of it which, from apprehensions of its withdrawal, is virtually locked up at the very moment it is wanted, which is fundamentally erroneous in principle. Thus the second requirement does not exist.

3rdly. To secure the convertibility of the note, one-third of the amount of its issues in the ordinary course is deemed sufficient; but M. Perèire speaks only on these essentials as applying to a Currency Bank generally. This supply for the third requirement would not apply to the Bank of England, it being obliged to supply gold to all the world at 77s. 10½*d.* per ounce; for it consequently must keep gold for the whole of its issues, through apprehension of foreign demand. This obligation is the cause of such frequent derangements. Immediately gold is wanted abroad, or if it will obtain there a higher price, demands may be made upon the Bank which, as its capital is unavailable, cannot be met, yet must be provided for, and naturally the Bank,

thinking of its own safety, avails itself of its remaining power to check such demands by discontinuance of or contraction of its issues. The effect is immediately felt by commerce in the consequent rise in the rate of discount. The importance of our commerce is paramount. Everything should be done by the Legislature to foster it, and as there is nothing more detrimental to its interests than such continual variation in the rates of discount, it ought not to be permitted.

If, instead of contracting its issues, by augmenting the rate of discount, the Bank were at liberty to sell a portion of its unavailable capital in the debt of the Government, it might withdraw notes from circulation, and produce the desired effect without injuring trade. The result, if thereby the diminution of the amount in circulation were felt, would be a fall in the price of the funds, which would be far less injurious than a fall in the prices of produce, manufactures, &c. In the one case, it might be 1, 2, or 3 per cent. ; in the other, from 15 to 50 per cent. In the first case, the holder of the funds, who has no occasion to sell, would lose nothing, and the loss, if any, would fall on a comparatively few rich persons ; in the other case, the whole community of trade—thousands, indeed millions—would be heavily affected by it, as well as the revenue of the country.

That such facility to the Bank would be politic, reference may be made to the large sale of Rentes in France in 1847 to Russia, which had the same effect as the suspension of the Act of 1844: it produced abundance of gold, and restored discount to its ordinary

rate, 4 per cent. ; so that if the Bank of England were empowered to call upon the Government on account of the fifteen millions debt, for from three to five millions of Consols, to be afterwards returned, it might sell that stock on the market, and thus avail itself of its capital, and in like manner withdraw notes out of circulation, with less injury to commerce, for the reasons already stated.

It may be asked, if the suspension of the Act produce the same effect as the availability of the debt of the Government to the Bank, would not a more frequent suspension of the Act be the same thing?

In the first place, it would prove that the principle of the law is wrong, by being constantly required to be evaded. Secondly, the suspension is only adopted when commercial distress compels its application, the evils then being great. True, it stops further injury, but does not compensate for the losses already occasioned.

When the Carthaginians attacked the Romans in Italy, and the latter were absolutely afraid that they could not even hold their country, it was thought politic simultaneously to attack the Carthaginians *at home* ; and Scipio was sent to Africa, and succeeded not only in defeating the enemy, but causing him to withdraw from Italy. If the Bank Act be persistently maintained, would not a similar policy be preferable to the existing practice of contracting the issues by elevating the discount on the withdrawal of gold?

Gold is wanted abroad for two purposes:—

1st. Occasionally by payments for foreign loans, or by parties here desirous of purchasing abroad corn,

produce, or anything else for which the balance of trade is insufficient.

2nd. Principally, by individuals ever on the look-out to obtain a profit in exporting gold, when they can receive a higher price abroad than 77s. 10½*d.* per ounce, and charges for transmission. So that it is the price abroad which regulates the demand.

Now, following the prudence of the Romans, if our enemy violently attack us by withdrawing gold here, why could not gold be sold by the Bank of England in Paris or elsewhere at a lower price than it could be obtained here?

The price of gold in foreign markets is always sensitive, and might at first, perhaps, be sufficiently altered by sending there one million, or even less, if sold below our price. By this the principal inducement, *profit*, would vanish. The cost of such would be perhaps 1 or 1½ per cent., or on one million, £15,000. If three millions were sent, which is about the amount of the largest abstraction of gold witnessed in such cases, it would be only £45,000. This sum, contrasted with the losses by panics, is so insignificant, that it is a wonder this policy has never yet been resorted to. Who is to bear such loss? The Bank of England would not be likely to assume it, for thereby its principal source of profit would be shut up—viz., the raising the rate of discount. The Government, most interested in the prosperity of the country as guardian of commerce, had better pay it; for, in preventing injury to the revenue, it would be amply recouped.

Contraction of issues has been chiefly in view in the foregoing remarks ; but in the present system there is another source of evil, *their expansion*, which by some people is even said to be the real originator of panics, by inducing over-speculation. This, however, it must be confessed, is not the fault of the Act of 1844, but that of the Directors of the Bank ; for Mr. Patterson (*Economy of Capital*, page 195) justly says : “The Bank Act does not necessitate expansions. When an unusual amount of gold is deposited with the Bank, the Act imposes no necessity upon the Directors to make an unusual issue of notes. It is wholly the act of the Directors.” Would it, therefore, not be better to pay for gold, when not wanted, out of the deposits in the *Banking* Department, rather than through the *Issue* Department, by an unnecessary increase of the circulation, conducing to an ultimate augmentation of their reserve, and rendering it necessary to force their notes out at an unusually low rate of discount ? for under such circumstances they might draw freely upon the banking balances.

These indirect recommendations for preventing the drain of gold, as well as the sale of the funds with a view to withdraw the issues, are only necessary under the present system. If the propositions in the preceding axioms be adopted, these “fancy” efforts will never be wanted ; the three requirements of M. Perèire would then be fulfilled without them.

By Axiom IV., page 16, the capital of the Bank, consisting of notes *guaranteed* by the Government for

the *whole currency*, fixed at a proper amount, would always be sufficient and ever available, the whole being at the disposal of the Bank of England. No longer subjected to foreign demand, the gold required for domestic purposes, guided by that generally on hand in the Banking Department, would not be more than £1,500,000, which amount might be easily kept up.

Fixing the rate of discount at 4 per cent. (page 9), induces a fear that over-speculation would follow. This would find its cure in the refusal of the Bank to discount any bills whereof the object for which they are drawn is not satisfactorily given. The difficulty of ascertaining this is prominently in the mouths of opponents to a fixed rate of 4 per cent. discount. The observations (page 10) that such is easily to be known are relied upon, and in any dubious cases the Bank should always persist in refusing its advances. It would be its duty to do so.

To define speculation is rather difficult. All commerce, to a certain degree, is speculation. The meaning is, that in reference to the purchase of produce actually shipped, or preparing for shipment, or of goods already manufactured, or on the eve of completion, it is justifiable, contradistinguished from manufactured things as are not in existence at the time, or in regard to produce, the purchase of future years' crops, contracting for which would be speculation. Besides this, there is reprehensible speculation, in operations in the stocks, railways, and various undertakings, which, from the nature of the existing law, affect so much our Money

Market; but such, by the proposed system, would have to find recourse for money in borrowing otherwise than at the Bank of England at 4 per cent., thus paying a higher and more corrective rate of interest.

In reference to the maintenance of a quantity of gold sufficient for domestic supply, from its cessation of being the basis of our issues, the price of that commodity must necessarily fall. So that there would be for a considerable time much more gold here than would thus be wanted—perhaps more than would be convenient.

The preceding axioms and observations have originated in the desire of seeing relief afforded to commerce from the too frequent terrific convulsions in the currency, which, whether occasioned by the Bank Act of 1844 or not, are certainly and unnecessarily increased by it. Veneration for the profound intelligence of its author, combined with a grateful recollection of immense national services rendered by him, cause hesitation in impugning his work, and even would have imposed silence thereon, had he not himself set before us so noble an example of self-abnegation, when, from pure conviction, offending his bosom friends and abandoning his publicly expressed opinions, he thought it his duty to assist in the greatest boon the country ever received—the repeal of the Corn Laws. It is to be hoped his worthy admirers and imitators will not, in reference to the Bank Act, forget this example, for assuredly had he lived now, he would have been among the readiest to denounce his own law. Our duty, at any rate, will be

to respect that, for which he has received, and deservedly, so much eulogy. With this feeling, in the desire to modify it, we should endeavour to eliminate only that which is inconsistent with the interests of commerce. Therefore, before desiring its entire repeal, let the recommendations in the preceding pages be tried under the existing Act:—

1stly. By permitting the Bank of England (page 38), in times of pressure, to claim from the Government, on account of its fifteen millions capital, the use of from three to five millions of 3 per Cent. Consols, so as to *withdraw notes by sale of that stock*, instead of *contracting the issues by raising the rate of discount*.

2ndly. By adopting the recommendation (page 40) of judiciously sending gold abroad by the Bank of England, and selling it there at a lower price than 77s. 10½d., whereby the higher price abroad, the cause of the demand, will be removed.

3rdly. In having frequent recourse, if necessary, to the same operation as practised in 1825 (page 33), when the late Mr. Rothschild so completely dispersed the then impending panic.

And lastly. In avoiding the dangers of expansion of issues (page 41), by the Bank purchasing gold *when not wanted* with the balances in the *Banking* instead of the *Issue Department*.

By adopting these precautionary measures, the present Act, perhaps, might be satisfactorily maintained, and baneful panics avoided.



## NOTES.

NOTE A. (*see page 12*).

Some persons curiously pretend that the price of gold *is not* now fixed at 77s. 10½*d.* per oz., asserting that the Committee of the House of Commons, in 1857, had declared it to be so. Let us try and analyse the assertion.

The Bank has gold belonging to the holders of its notes, with the engagement to deliver it at the rate of 77s. 10½*d.* per oz. If the Bank deliver gold to any one holding its notes, has it not sold the gold?

Did not the Bank purchase it at 77s. 9*d.* per oz.? That parties who take the gold from the Bank at 77s. 10½*d.* per oz. do not buy gold, but have bought the notes by which it is obtained at that rate, seems like childish quibble.

It is similar to the question of the disposal of Church property, wherein you *may not sell* the living, for that is simony, but you *may sell* the next presentation to it, which is legal. Or in the borough system, where a Peer *may not vote* or interfere in an election, but he *may*, by his influence, cause the public officer to return his protégé. Or further, that to go to certain assemblies you *cannot* pay money for admission at the door, but, by stepping into the street a few yards off, you *can buy tickets* to admit you. There may be law or specious logic in such reasonings, but decidedly no sense.

NOTE B. (*see page 16*).

Some persons desire the establishment of a State Bank. This would not be so well, for in the *first* place, in issuing notes by a private establishment for the Government, there is a check upon the latter, so that its issues shall not be for more than the amount legally stipulated. *Secondly*, the experience of the Bank of England in the issue of notes is perfect. This would not be likely to be the case if

the Government undertook the issues; at any rate, until years had passed over, during which time what inconvenience might arise from forgery. *Thirdly*, the public is well satisfied with the Bank of England in this respect; and a change would add to any difficulties which necessarily must attend an alteration in so serious a matter.

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NOTE C. (*see page 18*).

We have seen the Bank of England discounting at  $2\frac{1}{2}$  per cent., and even less, and at the present time the reserve is large, and discount at that rate. It may be asked, How is the Bank of England to get its revenue at 4 per cent. discount in the proposed system, if it cannot now employ its money at  $2\frac{1}{2}$  per cent.? The reason is obvious. Commerce has been so dreadfully shaken, and the terrors of such tremendous speculation so recently witnessed, that every one fearful of a recurrence of them declines entering upon any new liabilities, although at  $2\frac{1}{2}$  per cent. money presents attraction. Were it fixed at 4 per cent., they would not hesitate; while at present, not knowing but that before their enterprises have had time to be carried out, they might have a return to 10 per cent. They consequently will not take the money.

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NOTE D. (*see page 20*).

Such deposits being to the clearing Banks the same as gold, against which in their transactions they make their advances; and if used by the Bank of England, there would be a double employment by the bankers, and the Bank of England too, which ought to be avoided.





LA

# GUERRE DES BANQUES

ET SON REMÈDE :

UN

SYSTÈME MONÉTAIRE INTERNATIONAL

PAR

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MEMBRE DE LA SOCIÉTÉ D'ÉCONOMIE POLITIQUE DE PARIS

Auteur de *The Economy of Capital*, etc., etc.



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A M. MICHEL CHEVALIER

DE L'INSTITUT, SÉNATEUR, ETC., ETC.

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MONSIEUR,

Vous avez bien voulu m'accorder l'honneur de vous dédier cette brochure, et je vous en remercie.

Sous la protection de l'homme illustre qui a doté son pays de la réforme commerciale, et qui travaille maintenant à lui donner la réforme des banques, j'ose espérer que mon écrit obtiendra un peu d'attention des hommes compétents.

Agréez, Monsieur, l'assurance de ma considération la plus distinguée.

R.-H. PATTERSON.

Londres, 1<sup>er</sup> février 1867.





LA

# GUERRE DES BANQUES

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LA période des guerres européennes, — cette longue période de luttes qui dure depuis plus de deux mille ans, — s'approche par degrés de sa fin. Il y aura encore des guerres — et peut-être de grandes guerres : cependant nous touchons au terme des luttes internationales, et l'Europe, avant longtemps, se synthétisera en une pacifique communauté de nations, — en une communauté dans laquelle chaque Etat respectera les droits de ses voisins, et agira d'accord avec eux. L'absolutisme des rois, l'ambition des Etats qui sont en voie de s'agrandir, cesseront d'ici à peu de plonger le continent dans le tumulte et dans les terribles dangers des conflits armés. Chaque peuple commence à reconnaître et à respecter les droits des peuples limitrophes ; et à mesure que le grand œuvre du développement intérieur et du gouvernement par soi-même fera des progrès, l'esprit d'initiative et l'intérêt personnel viendront de plus en plus en aide à la morale internationale. Que chaque peuple jouisse de ses droits naturels, et les prétextes de guerre tomberont d'eux-mêmes. En même temps que chaque nation atteindra son développement et sa maturité, se résoudra à être elle-même,

et pourra régler ses propres destinées, ce grandissement des peuples, ce principe des nationalités élèveront une barrière contre les efforts de l'ambition égoïste, que cette ambition émane des peuples ou des princes. Nous assistons au commencement de ce progrès; et bien que nous n'en voyions pas l'heureux succès, on peut l'entrevoir dans l'avenir—il est prochain.

Mais il est d'autres conflits que ceux qui se vident par les armes. L'industrie a également ses guerres. La charrue, le métier, les forges peuvent engager par eux-mêmes une lutte internationale sans le secours du glaive ou de l'épée; les navires de commerce peuvent engager les hostilités, sans tirer de leur bord un seul coup de canon. Longtemps on s'est livré, en Europe, à une guerre de tarifs, frappant le commerce et l'industrie : chaque pays a cherché à restreindre, à annihiler l'industrie de ses voisins. Pour le bénéfice de sa propre population, chaque État a cherché à exclure les produits, à restreindre l'esprit d'entreprise des autres États. Cette guerre aussi touche à sa fin, par degrés et lentement, il est vrai, mais elle touche à sa fin. Les traités de commerce internationaux sont désormais à l'ordre du jour, — chaque pays accordant à l'autre des privilèges semblables, des droits égaux. Le résultat naturel de ce progrès, ce sera le *Free Trade*, la liberté commerciale en Europe; alors toutes les barrières des douanes seront renversées, alors l'Europe sera devenue une communauté commerciale, — alors les marchandises de toute sorte circuleront librement de pays à pays, et quand les meilleurs produits (quelle que soit leur origine) l'emporteront aussi sûrement sur chaque marché qu'ils le font déjà dans nos grandes expositions internationales.

Mais pendant que ces triomphes de la paix, de la bonne vo-



lonté mutuelle des nations se produisent lentement, il faut constater un énorme anachronisme, — un élément de notre civilisation qui marche à l'encontre des tendances satisfaisantes de notre époque. En même temps que le commerce devient plus libre entre les communautés d'individus, entre les nations, une sorte de guerre s'est manifestée, ou du moins a été ressuscitée; sorte de guerre d'une espèce nouvelle et bien déplorable, qui tend à neutraliser le bien accompli. Tandis que la guerre des tarifs s'apaise, et que le conflit des États touche sensiblement à sa fin, une guerre nouvelle, à la fois civile et internationale, s'est allumée dans le champ de l'industrie pacifique, — guerre aussi funeste à l'industrie elle-même que les guerres politiques le sont au bien-être des nations. Elle ne s'attaque point aux limites territoriales; elle ne constate point ses succès par des arcs de triomphe ou des décrets impériaux; mais elle imprime ses cruels résultats dans les annales commerciales de tous les pays qui s'engagent dans cette malheureuse lutte. Cette sorte de guerre a une *Gazette* à elle. Nous trouvons les bulletins de ses funestes victoires dans les rapports du *Board of Trade*, dans les statistiques de la *Court of Bankruptcy*. C'est une guerre à laquelle nul État ne prend part comme puissance politique et militaire, mais dans laquelle dix mille personnes et plus sont forcées de s'engager, sont forcées de supporter les risques et les pertes du combat. Dans cette guerre, il n'y a pas d'exemption du service. Le négociant le plus paisible, dans son bureau; le manufacturier, dans son usine, qu'ils le veuillent ou non, se mêlent au tumulte et prennent part à la bataille. Et pour eux, — pour toutes ces recrues forcées et obligées, — il n'y a pas de lauriers. Il faut combattre et sortir du combat seulement avec ses cicatrices, — sans médailles, rubans, ni grades. Et s'ils exposent leur vie,

comme il arrive souvent, ils ne doivent espérer ni pensions, — ni l'hôpital de Chelsea ou de Greenwich. La puissance qui les jette dans la guerre ne s'inquiète pas de leurs pertes, ne sait même pas qu'ils sont à son service. Ils sont simplement de la « chair à canon, » engagée contre leur volonté dans la lutte à laquelle ils sont forcés de prendre part. Bien plus, des myriades d'ouvriers sont également obligés d'entrer en ligne dans cette étrange guerre. Ceux-là n'ont point à espérer de triomphe ; le seul résultat est une perte, — perte sans aucune espèce de compensation morale ou matérielle. Ils perdent leur salaire, en tout ou en partie ; ils perdent le travail qui fournissait le pain quotidien à eux et à leurs familles. C'est une guerre, en réalité, qui vient s'asseoir à chaque comptoir et à chaque foyer, qui frappe plus ou moins toutes les classes industrielles de la société, et dont les seuls effets sont des pertes, la misère, le besoin.

Ce nouvel et étrange état de guerre, — car c'est un nouvel état de guerre, — c'est la guerre des Banques. Toujours et toujours, les Banques de l'Europe engagent une funeste lutte internationale. Funeste, mais non pour elles. Elles ne font pas déclarer la guerre par le souverain, — elles n'invoquent pas la sanction du Parlement. Elles font la déclaration par elles-mêmes, et tirent leurs « subsides » des poches de la société. La société entière, et surtout les classes commerciales et industrielles ne sont que des pions, de simples soldats dont on ne paye pas le service, avec lesquels — c'est-à-dire aux dépens desquels — les Banques se mettent en bataille. Les Gouvernements ont intérêt à éviter la guerre, parce qu'elle épuise leurs ressources ; mais les fauteurs de ce nouveau genre de conflit international n'ont pas les mêmes raisons de désirer la paix. Les Banques se payent elles-mêmes en faisant battre les autres,

et leurs bénéfices vont croissant en proportion de la durée et de l'intensité du conflit.

Eh bien ! qu'est-ce que cette guerre ? Quelle est la nature de ces luttes internationales dans lesquelles nous sommes si fréquemment engagés ? De toutes les institutions, les Banques sont celles que nous devrions considérer comme les plus pacifiques. Comment se fait-il qu'elles soient si belliqueuses ? Quelle est la nature de la guerre où elles nous engagent ? Quel est son but ?

Devrions-nous poser une telle question ? Combien de fois, pendant les dernières années, avons-nous vu cette guerre internationale déclarée, cette bataille engagée, ces pertes accomplies ? En 1857, en 1864, cette année encore, avec plus ou moins de violence, nous avons vu la lutte s'engager. Dans presque tous les cas, c'est la Banque d'Angleterre qui a pris l'offensive ; la déclaration de guerre est partie du parloir de la Banque en Threadneedle-Street. Le simple avis que la Banque d'Angleterre avait élevé le taux de l'escompte courait sur l'Europe, par les fils du télégraphe, comme une flamme électrique, et chaque Banque se mettait sous les armes et engageait le combat. Un faible État, menacé par ses voisins, peut céder, une Banque ne cède pas. Toutes acceptent le cartel. — Toutes à la fois entrent en guerre. Pourquoi ne le feraient-elles pas, puisque, quel que soit le résultat, elles ne supportent point la perte ? — puisque le seul résultat certain est d'accroître leurs bénéfices ?

Prenons un exemple, — soit la crise de 1857 ou toute autre crise ultérieure. Quel est le procédé adopté ? — Quelle est la marche de la guerre ? La Banque d'Angleterre élève le taux de l'escompte, — c'est le premier pas, la déclaration des hostilités. Pourquoi la Banque adopte-t-elle cette conduite ? Elle le fait.

nous dit-on, d'une part pour empêcher l'exportation de l'or, de l'autre pour attirer l'or dans le pays. Retenir ou gagner une certaine quantité d'or, — tel est le motif de la guerre internationale des Banques. Cette guerre européenne est engagée pour la possession de cent livres ou deux cents livres de ce métal jaune, comme les Grecs et les Troyens se battaient jusqu'à la mort sur le cadavre de Patrocle. « Maudit soit le premier qui se passionna pour l'or, » dit le vieil Anacréon ; et l'*auri sacra fames* fut dénoncée comme un signe funeste des temps, comme une dégénérescence fatale de l'humanité, par le poète des *Métamorphoses*, à Rome, au siècle d'Auguste. Maintenant l'adoration pour ce métal divinisé, et qui, il y a un siècle et demi, était regardée comme une vieille erreur, est ressuscitée sous sa forme la plus tyrannique. Toujours et toujours la Banque d'Angleterre adopte les mesures les plus extrêmes à l'égard de la communauté commerciale, pour arriver à tirer des autres pays ou empêcher de faire sortir de chez nous, une partie du métal jaune, partie si peu considérable qu'elle égale à peine en valeur la propriété d'un petit nombre d'individus.

Voilà le *casus belli*. Voyons maintenant comment est conduite la guerre ainsi déclarée. La Banque d'Angleterre, pour conserver ou acquérir une certaine quantité d'or, élève le taux de l'escompte ; que s'ensuit-il ? Immédiatement les banques des autres pays en font autant, elles élèvent aussi le taux de l'escompte. Il peut arriver qu'elles n'aient pas à faire face à des demandes extraordinaires, — et c'est généralement le cas ; on n'exige d'elles aucun capital, soit en billets, soit en espèces ; mais du moment où la Banque d'Angleterre élève le taux de son escompte, elles élèvent le leur. Dans certains pays le taux officiel est généralement plus faible que chez nous, —

dans d'autres, il est plus haut. Mais toutes les fois que la Banque d'Angleterre élève son taux, il en est de même dans tous les autres pays, — la France ne fait exception que depuis un an.

Quelle est la conséquence ? Purement et simplement celle-ci, que la situation relative des diverses banques de l'Europe n'a pas changé. Les motifs d'importation ou d'exportation de l'or, de pays à pays, restent les mêmes qu'auparavant. Le résultat de cette guerre internationale des banques, à ce point de vue, est un *rien* absolu. C'est un jeu de perpétuels échecs, une partie dans laquelle chaque mouvement de chaque joueur consiste à faire « échec » aux autres. La partie marche, — la Banque d'Angleterre prenant l'initiative et rencontrant toujours « l'échec » — jusqu'à ce qu'on arrive à un jeu bouché ; le combat finit laissant les combattants, vis-à-vis l'un de l'autre, exactement dans le *statu quo ante bellum*. Ils ne gagnent rien l'un sur l'autre ; la banque d'un pays ne tire pas une once d'or des autres banques d'Europe. Cette politique belliqueuse des banques de l'Europe, nous l'avons dit, a pour résultat, au point de vue de leurs situations respectives, *rien*. Ainsi cette manière de procéder, en ce qui concerne le débat international pour la possession de l'or, n'a absolument aucun effet.

Cela suffirait pour condamner la conduite adoptée récemment par les banques ; cette conduite n'atteint point le but qu'on se propose. Au lieu d'attirer l'or des autres pays, il se trouve que les motifs d'importation et d'exportation, de pays à pays, restent les mêmes. Certainement il sautera aux yeux de tout observateur intelligent, que cette guerre des banques vient *après coup*. Elle est commencée par les banques d'un pays (généralement l'Angleterre) qui est sous le coup d'un drainage accidentel et momentané d'espèces :

mais, comme les banques des autres pays élèvent instantanément leur taux d'escompte dans la même proportion, l'effet est nul. Même en 1864, quand le minimum de la Banque a été porté à 9 p. 100, on n'a fait venir l'or ni du continent ni des États-Unis ; à peine est-il entré une faible quantité de monnaies françaises, qui ne pouvaient circuler chez nous qu'après avoir été frappées de nouveau.

Pourquoi donc cette guerre des banques ? On ne peut douter qu'elle n'ait quelques motifs, motifs que les banques au moins croient suffisants. Examinons-les.

Les banques obtiennent un grand résultat, et profitent de leur conduite. Celle-ci n'a pas pour résultat, nous l'avons vu, de tirer de l'or d'un pays au bénéfice d'un autre. Néanmoins, il y a un fait aussi incontestable, c'est qu'en raison de cette conduite les espèces s'accumulent dans les banques — dans toutes les banques de l'Europe. Bien que l'élévation du taux de l'escompte n'amène pas l'or des banques des autres pays, elle a pour effet de rendre les espèces abondantes en entravant la demande. La guerre des banques tue le commerce, et par conséquent amoindrit les demandes de capitaux. Toutes choses égales d'ailleurs, plus le commerce est actif, plus on demande de capitaux. Entravez le commerce et l'argent devient immédiatement abondant. C'est précisément d'après ce principe que les banques agissent maintenant. L'élévation du taux de l'escompte par la Banque d'Angleterre, suivi de l'adoption d'une semblable mesure par les banques étrangères, ne remplit pas le moins du monde les coffres de la banque aux dépens de ses voisins du dehors ; mais elle exerce une influence incontestable, c'est de réduire les demandes de notre communauté commerciale. L'or s'accumule dans les banques, parce que nos



négociants ne peuvent plus l'employer avec bénéfice. Le seul — ou du moins le principal, le plus important, le grand — objet de l'or est de servir comme monnaie internationale, pour solder les paiements commerciaux d'un pays à l'autre. Tuez le commerce, et du même coup le montant de ces soldes internationaux est amoindri. La guerre des banques tue le commerce, c'est son seul effet. Et cela n'est pas seulement dans notre pays, mais dans tous ceux où le même système est en vigueur. Aussi chaque période de surélévation du taux de l'escompte est suivie d'un ralentissement du commerce, et les espèces s'accumulent alors dans les banques, simplement parce que le chiffre ordinaire des demandes a diminué. Quand le taux de la banque est porté à 10 p. 100, les classes industrielles, négociants, boutiquiers ou manufacturiers, sont ruinés par centaines. Non-seulement il leur faut payer un taux exorbitant pour escompter les billets, qui comptent pour une si large part dans les transactions, mais en même temps les marchés sont si troublés que les ventes ordinaires ne peuvent être effectuées qu'en subissant une dépréciation de 20 à 30 p. 100 sur la valeur des marchandises. Alors des centaines de personnes sont ruinées, et les autres limitent leurs opérations autant qu'il est possible. Le commerce est paralysé, et l'argent s'entasse dans les banques parce qu'il n'est pas employé alors. La seule destination de la monnaie, c'est de circuler dans le commerce ; en frappant le commerce, les banques font disparaître le seul emploi pour lequel la monnaie a été créée : dans de telles circonstances, elles ne rendent les espèces abondantes dans leurs caisses qu'en les rendant inutiles. Au lieu de favoriser le développement du commerce, leur principe dominant, depuis quelque temps, est de le battre en brèche par des assauts réitérés.

Si l'effet du système adopté par les banques était de réduire les importations d'un pays en augmentant les exportations, ce serait au moins une politique facile à comprendre. Ce serait la résurrection du vieux « système commercial, » adopté par toutes les nations au moyen âge. Le but avoué de ce système était de provoquer les importations de métaux précieux ; c'était la grande préoccupation de nos anciens législateurs. A leur avis, la richesse d'un pays ne pouvait croître que par l'accroissement de l'importation et l'accumulation des métaux précieux : la somme de numéraire que possédait un pays était l'expression de sa richesse. Plus la masse d'or et d'argent était considérable, plus le pays était opulent et prospère. Telle était la vieille doctrine, le principe du « système commercial, » et pour atteindre ce résultat, on empêchait les importations, on encourageait les exportations. Toute notre législation commerciale était dirigée dans ce sens. Des droits onéreux étaient imposés sur nos importations, sur toutes les marchandises étrangères qui entraient chez nous, tandis que nos exportations étaient favorisées par l'obligation faite à nos colonies d'acheter nos produits, et aussi, dans quelques cas, par une prime que l'État payait immédiatement pour les articles exportés. En principe il y a un siècle qu'on a répudié le « système commercial ; » et récemment il a été détruit et renversé dans la pratique par l'adoption du système diamétralement opposé, celui du *Free Trade*. Mais, chose étrange, tandis que ce système hors d'âge a été rejeté par notre législation commerciale qui a été dirigée en sens contraire, il a été récemment remis en vigueur par notre législation monétaire, et surtout par la manière de procéder de la Banque d'Angleterre. L'élévation réitérée du taux de l'escompte jusqu'au double du prix ordinaire est expliquée, applaudie précisément au nom des principes du vieux « sys-

tème commercial, » c'est-à-dire parce qu'elle tend à augmenter l'importation et à réduire l'exportation des métaux précieux. C'est vraiment une étrange anomalie. Nous avons rejeté les principes du système commercial de notre législation commerciale ; nous les avons fait revivre, plus absolus que jamais, dans notre système monétaire.

La politique suivie par les banques atteint-elle le but que se proposait le système commercial, ce système caduc et condamné ? Non. Elle a ressuscité tous les défauts de l'ancien système sans réaliser son objet, et en même temps, elle impose à la communauté des embarras dont cet ancien système était exempt. Nous le répétons. — Si l'effet de la guerre internationale des banques, de cette élévation du taux de l'escompte, était d'augmenter les exportations en réduisant les importations. Cette politique aurait au moins son explication. Mais il n'en est rien. Cet antagonisme diminue aussi bien les exportations que les importations : il frappe le commerce de tous les côtés. Dans le fait, il frappe d'abord les exportations. Les ordres pour l'importation des marchandises étrangères doivent être expédiés de deux à six mois avant que les marchandises entrent dans nos ports. De sorte que quand le taux de l'escompte est élevé soudainement, — ce qui arrive ordinairement, nous pourrions dire toujours, — le commerce d'importation n'est pas immédiatement ralenti. Mais la mesure restrictive frappe instantanément notre commerce d'exportation. Les négociants et manufacturiers engagés dans ce commerce resserrent simultanément leurs opérations. Le commissionnaire (ou *broker*) diminue ses ordres, le manufacturier met ses ouvriers à la demi-journée ; la conséquence est qu'instantanément notre commerce d'exportation se restreint, et cela au moment où l'on ne cherche qu'à augmenter nos ex-

portations, pour réaliser des espèces. Que faut-il dire de plus ? Le seul effet pratique de la politique actuelle des banques est de tuer le commerce — et de tuer d'abord le commerce d'exportation, tandis que son développement serait le meilleur et le plus naturel moyen de faire entrer dans le pays le surplus d'espèces dont nous avons besoin, ou dont nous sommes censés avoir besoin.

Voilà, au point de vue international, ce qu'est la guerre des banques. C'est une guerre très-avantageuse pour ceux qui la déclarent, très-avantageuse pour les banques. A mesure qu'elles élèvent le taux de l'escompte, leurs dividendes augmentent. Pourquoi donc, demandera-t-on, s'arrêtent-elles dans cette voie ? Puisque, quand elles élèvent le taux de l'escompte de 5 à 8, 9 et même 10 pour 100, leurs profits s'accroissent rapidement, pourquoi ne vont-elles pas plus loin, pourquoi ne décrètent-elles pas des taux plus exorbitants encore ? Demandez à un fermier pourquoi il ne tond pas ses moutons deux fois par an.

Il arrive un moment, dans cette guerre des banques, où le commerce ne peut pas supporter plus longtemps ces charges excessives ; un moment où tous les bénéfices vont s'engloutir dans les caisses des banques, et où le commerce succombe sous le fardeau qu'on lui a imposé. Dans ces dernières années, nous avons été menacés, par les partisans du système actuel, de l'élévation du taux de l'escompte à « 15, 20 et 30 p. 100 » ; mais ce sont là des aberrations d'esprits malades. L'expérience par des faits réitérés et désolants, prouve que le taux de 9 à 10 p. 100 est déjà plus que notre commerce ne peut supporter. Il a succombé, et la Banque a dû ensuite abaisser le taux de l'escompte, parce qu'elle avait appauvri ses clients. Quand les meilleurs billets à court terme ne peuvent être escomptés

au-dessous de 10 p. 100, il est facile de se rendre compte des conditions dans lesquelles se négocient les effets de seconde classe, ou bien ceux de premier ordre qui sont à cinq ou six mois d'échéance. Le taux de 10 p. 100 à la Banque amonçèle les ruines et les faillites dans les classes commerciales et manufacturières, il fait perdre leur emploi, leur pain à des milliers d'ouvriers. Il est curieux de remarquer que cet arrêt du commerce frappe d'abord, et plus cruellement, le pays qui provoque ce stérile conflit international. Tandis que, dans toute l'Europe, le taux de l'escompte s'élève, s'élève encore, — la Banque d'Angleterre prenant toujours l'initiative, — l'événement qui arrête à la fin cette élévation, c'est la crise commerciale en Angleterre même. C'est le commerce de notre pays qui succombe le premier, d'abord parce qu'il subit la plus rude épreuve, ensuite parce qu'il est plus étendu que celui d'aucune autre nation.

Ainsi, nous le répétons, le mal que nous semons, nous le récoltons les premiers. La guerre que la Banque d'Angleterre est la première à déclarer — et rien que pour ce motif elle ne devrait jamais être engagée — nous inflige à nous-mêmes ses plus rapides et ses plus lourdes calamités. Est-ce là de la sagesse, de la civilisation ? C'est de la barbarie et de la folie — qui se donnent carrière surtout à nos dépens.

Comme nous exciterons la pitié des générations futures ! Comme nous leur donnerons à rire ! Comme elles se moqueront de notre civilisation si vantée ! Comme elles se railleront des éloges orgueilleux que nous nous décernons ! Tandis que Réforme est le grand cri et le grand travail de chaque jour, — quand nous avons la Réforme parlementaire, la Réforme administrative, la Réforme législative, la Réforme de la loi sur les faillites, tout cela exerçant nos bras, nos esprits, notre

éloquence, — il n'est pas question de Réforme monétaire. Quand le « Progrès » est notre mot d'ordre, que pensera-t-on de nous en voyant que pour l'un des principaux éléments du bien-être de la nation, non-seulement nous restons stationnaires, mais nous rétrogradons ? Quand le *Free Trade* est le cri de ralliement et la gloire de l'époque, — quand nous avons déjà tant fait pour l'établir, et quand nous nous en vantons encore davantage, — quand le moindre droit aboli, tout droit excessif diminué, excite les applaudissements enthousiastes des journaux de progrès, — quand l'abaissement de droits si considérables sur les vins étrangers, les rubans, les gants, est considéré comme le triomphe d'un homme d'État, — que penseront les âges futurs, les générations futures de l'Angleterre, en voyant qu'une réforme bien plus importante ne vient pas à la pensée, qu'on l'oublie, qu'on la néglige — et que le principe du monopole, le système des restrictions, est florissant dans une des parties constitutives de la vie nationale, et comme l'arbre upas, étend sa délétère influence sur toutes les branches de l'industrie ? Quand le commerce tend sans cesse à se développer, — quand le grand but de notre législation est d'étendre de plus en plus ce développement, — que pensera-t-on de nous en voyant que nous laissons en dehors de tout progrès les moyens de faire face à ce développement ? Bien plus, non-seulement nous les laissons en dehors de tout progrès, mais nous les amoindrissons et nous les soumettons à des restrictions inconnues auparavant. Que dira-t-on de nous, quand on verra qu'une de nos mesures législatives les plus vantées (l'acte de la Banque), non-seulement empêche notre système monétaire de se mettre au niveau des progrès du commerce, mais lui impose des entraves empruntées au passé, et le soumet à un régime de

monopole et de restriction qui a été abandonné et répudié dans toutes les autres parties de la législation. Pourquoi, établissant la liberté commerciale par notre législation commerciale, admettons-nous que le commerce entier, dans toutes ses branches, soit lié et garrotté par nos règlements monétaires? Quand le commerce se développe — quand nous désirons surtout qu'il se développe — nous restreignons les moyens mis à sa disposition. Peut-on rien concevoir de plus absurde? Ne nous étonnons point que d'année en année nos embarras monétaires et nos désastres commerciaux deviennent plus fréquents. Que pouvons-nous attendre autre chose que des troubles et des pertes, quand nous voulons combiner le développement sans limites du commerce avec une circulation restreinte et dépourvue d'élasticité? Notre folie ressemble à celle d'un homme qui voudrait enfermer un jeune chêne dans un vase de fer. Il arrose avec soin, il cultive l'arbre, désirant qu'il atteigne les plus grandes proportions, et il s'étonne si sans cesse l'arbre dépérit ou si le vase éclate. Ainsi, de notre système actuel de banque, si mal approprié aux exigences de l'époque. Le commerce est sans cesse étranglé *par* les banques, et quand, ainsi qu'il arrive quelquefois, notre système monétaire restrictif se trouve mis en éclats par une crise, nos législateurs replacent complaisamment les chaînes brisées, et laissent le système monétaire étrangler de nouveau le commerce.

Jusqu'ici nous avons décrit le conflit international des banques, — provoqué par des principes si arriérés, si désastreux dans ses résultats, — comme occasionné par le drainage des espèces d'un pays (ordinairement l'Angleterre), dont les banques commencent la guerre. Mais la guerre est déclarée et poursuivie aussi sous d'autres prétextes moins intelligibles.

La Banque d'Angleterre déclare souvent la guerre aux banques d'autres pays qui ne tirent point d'espèces de l'Angleterre, mais où la demande de billets devient plus active. Il n'y a qu'en Angleterre que les banques considèrent un tel fait comme un *casus belli*.

La guerre pour la possession des espèces — pour conserver ou acquérir une certaine quantité de monnaie internationale — est une politique adoptée *proprio motu* par les banques elles-mêmes. Mais la cause de la guerre dont nous allons maintenant parler ne doit pas être attribuée originai-  
rement à nos banques ; c'est le résultat immédiat et inévitable de la législation existante. Il y a là une différence à remarquer. L'un des dangers est dû à une cause naturelle, l'autre à une cause artificielle. Cette dernière consiste entièrement et simplement en ceci, que nos banques n'ont plus l'autorisation d'user de leur crédit par l'émission de billets, pour parer aux besoins momentanés de la circulation intérieure. Ces besoins se manifestent dès qu'il se produit une crise monétaire ou commerciale. Et une crise monétaire — c'est-à-dire la difficulté (naturelle ou artificielle) qu'éprouvent les banques à s'approvisionner d'espèces, occasionne inévitablement une crise commerciale. Dans ces moments, la demande de monnaie circulante s'élève, tandis que la demande de capital est moins considérable ; elle ne s'élève pas, parce que l'on demande plus de capitaux — car quand le taux d'es-  
compte de la banque est porté aux très-hauts cours (9 à 10 p. 100) les opérations commerciales, et, par suite, les demandes de capitaux sont restreintes dans une forte proportion. Ceci arrive ; 1° parce que le crédit commercial est amoindri du moment où l'on demande en paiement des espèces au lieu de billets, et 2° parce que le taux élevé de la Banque dépré-



ciant les cours sur les marchés, les négociants aiment mieux réaliser une partie de leur portefeuille plus considérable que d'habitude, que de perdre 20 à 30 p. 100 sur leurs marchandises, par ventes forcées. Ainsi le fait se résume ainsi, demande plus considérable non pas de capital, mais de monnaie circulante émise par les banques en échange de la monnaie circulante du commerce, les billets, et pour compenser sa diminution. Ce qu'on demande n'est donc qu'un accroissement des bank-notes. Et comme ces notes ne sont jamais destinées à être échangées contre argent, et ne sont jamais échangées, cette augmentation momentanée de la circulation ne peut créer aux banques aucun embarras. En même temps, ces émissions additionnelles seraient pour les banques une source de profits, indépendamment de toute élévation du taux de l'escompte, et par conséquent ces établissements y trouveraient un avantage. Mais ce remède aux difficultés qui reviennent périodiquement est interdit par les chartes de la Banque; la conséquence en est un désastre immense pour notre industrie nationale, et une cause artificielle qui détermine la Banque d'Angleterre à commencer la guerre internationale des Banques que nous avons déjà décrite.

Laissant de côté cette face de la question, — ce *casus belli* purement artificiel, — examinons la guerre des banques, comme si elle était provoquée seulement par une demande exceptionnelle d'or, par un conflit des banques pour la possession du métal jaune. Voyons si l'on ne peut détruire, ou au moins considérablement atténuer cette cause de la lutte des banques, — aussi désastreuse pour les populations de tous les pays que la colère d'Achille l'a été pour les Grecs réunis sous les murs de Troie. Considérons le drainage des espèces comme une difficulté pour les banques sous ses deux formes, c'est-à-

dire quand il est provoqué par une exportation extraordinaire, ou par une demande plus considérable pour les transactions intérieures. La doctrine que nous proclamons, — la manière de répartir le capital sous forme d'or que nous préconisons — s'appliquera également aux deux cas.

I. Considérons en premier lieu le drainage de l'or des banques occasionné par l'accroissement des demandes de monnaie métallique pour les transactions intérieures. Il se produit, avec notre système monétaire actuel, sous l'empire de trois causes différentes : 1° la plus fréquente, sur l'accroissement de demandes pour la monnaie destinée à solder les appoints, tels que les salaires hebdomadaires et autres semblables. Ceci se produit seulement en Angleterre, où il n'y a pas de billets au-dessous de 5 liv. sterl. (125 fr.), et où, par conséquent, les espèces d'or, sous la forme de souverains et de demi-souverains, doivent être prises à la Banque toutes les fois que le développement de l'activité industrielle, les travaux de la moisson, etc., nécessitent une plus grande abondance de monnaie d'appoint. Cette cause disparaîtrait instantanément si l'on émettait en Angleterre des billets de 1 liv. sterl. (25 fr.), ainsi qu'il en a toujours été en Écosse et en Irlande.

II. La seconde cause, c'est l'accroissement de la demande de notes en Écosse et en Irlande, — soit qu'elle provienne de l'augmentation des affaires commerciales, ou parce que la circulation ordinaire du commerce, c'est-à-dire les billets, est momentanément discréditée, ou encore, ce qui est rare, par suite de la faillite d'une banque d'émission, ce qui nécessite, de la part des autres banques, une extension de leur propre



émission pour combler le vide créé dans la circulation par l'annihilation des billets de la banque tombée. Quelle qu'en soit l'occasion, cet accroissement des demandes de *notes* (circulation de banque) en Écosse et en Irlande a pour résultat un retrait d'or de la Banque d'Angleterre, parce que les actes de 1844-45 défendent à aucune banque d'Écosse ou d'Irlande d'augmenter leur émission, à moins d'avoir augmenté leur provision de numéraire dans une égale proportion. Ce n'est donc pas un drainage d'or des banques, mais un transfert d'une banque aux autres. Cette seconde cause est presque aussi artificielle que la première. Que la loi autorise l'émission en Angleterre de *notes* de 1 liv. sterl., et les demandes occasionnelles de monnaie d'appoint sous forme de souverains cesseront ; qu'on abolisse l'obligation imposée aux banques d'Écosse et d'Irlande d'augmenter leur encaisse d'une somme égale avant d'augmenter le chiffre de leurs émissions, et la seconde cause des embarras de nos banques sera anéantie, ou du moins considérablement atténuée.

III. La troisième cause, c'est la chute du crédit d'une banque, qui alors se trouve sous le coup d'une demande d'or extraordinaire, pour le remboursement de ses billets et de ses dépôts. C'est un embarras qui n'atteint que les Banques d'Écosse et d'Irlande ; il ne peut se produire en Angleterre, parce que les billets de la Banque d'Angleterre sont monnaie légale, et que toute banque, en Angleterre, sur laquelle tombent les demandes, se sert des billets pour les satisfaire. Il serait facile aux banques d'Écosse et d'Irlande de faire face à toutes les demandes relatives à leurs *notes*, — le chiffre le plus élevé de la circulation d'une banque en Écosse étant 600,000 liv. sterl. (15 millions), et celui de la Banque

d'Irlande, dont l'émission est aussi considérable que celle de toutes les autres banques irlandaises, ne s'élevant qu'à 2 millions 500,000 liv. sterl. (62 millions 500,000 fr.). Mais l'assaut d'une banque pour le remboursement en or de ses dépôts qui *précède* toujours la demande en remboursement des billets, est chose plus sérieuse, et, s'il se prolonge, il amène à coup sûr la suspension de toute banque, si solvable, si riche qu'elle puisse être.

Une banque d'Écosse ou d'Irlande ainsi assaillie prend les plus promptes mesures pour s'approvisionner d'or, — et cela consiste à vendre sa réserve de consolidés, et à en retirer le montant en or de la Banque d'Angleterre. Ce procédé est des plus naturels, et on doit s'attendre à le voir mis en œuvre en tous cas dans une mesure plus ou moins grande. Néanmoins, si « l'assaut » est sérieux, tout l'or obtenu par ce moyen est insuffisant.

Si considérable que soit la réserve constituée par les banques d'Écosse, comparativement à celle des établissements de même nature en Angleterre (la Banque d'Angleterre exceptée), l'encaisse ne peut suffire pour faire face à des demandes prolongées de remboursement en or des dépôts. Mais, dans de pareils empressements à réclamer de l'or, il se produit un fait spécial et invariable, — c'est que l'or retiré d'une banque est immédiatement déposé dans une autre. De telle sorte que, si la situation de la banque menacée est véritablement solide, l'embarras peut être immédiatement conjuré par la coopération des autres banques. Tout ce qu'il faut pour déjouer les plus redoutables demandes d'or, c'est que les autres banques retournent, au fur et à mesure qu'elles le reçoivent, l'or à la banque menacée. Agir ainsi, ce n'est pas s'exposer à perdre ; c'est tout bénéfice ; car elles conservent néanmoins les nou-

veaux dépôts et les nouveaux clients. Ces banques n'ont pas besoin d'or, — elles n'en ont pas l'emploi, — il resterait inactif dans leurs coffres; et, en le retournant à la banque menacée, elles ne font que le prêter à un client solvable, à un taux d'intérêt qui leur donne profit. Ainsi, en acquérant des dépôts et des clients qu'elles n'avaient pas, elles trouvent aussi un bon emploi, un bon placement pour l'or dont elles n'ont pas besoin. En gardant l'or pour elles-mêmes, elles réalisent une perte immédiate, et ne peuvent atteindre d'autre résultat que de renverser un établissement rival. Il est vrai que toutes les banques sont assez satisfaites de voir tomber une rivale, parce qu'elles héritent d'une partie de ses affaires. Mais, pour les banques, renverser un établissement rival solvable, en refusant de l'aider pendant une panique, c'est donner à la panique une extension nouvelle, et appeler « l'assaut » sur elles-mêmes.

Les exemples de ce fait se trouvent dans toutes les crises monétaires, et on les a constatés au plus haut degré en Écosse en 1837. C'est alors que la politique de coopération des banques que nous proposons fut adoptée pour la première fois, tardivement et avec répugnance, il est vrai, par les banques d'Écosse; mais le succès rapide et complet qui fut obtenu doit prouver que le système de coopération est le vrai remède qu'il faut adopter dans tous les cas de panique où l'on court aux banques pour le remboursement en or des dépôts. Aucune banque ne peut résister par elle-même à une semblable panique; mais, par la coopération, la difficulté est facilement surmontée.

On peut facilement faire face à un drainage d'espèces pour les besoins intérieurs. Jamais il ne devrait constituer une difficulté sérieuse dans un système de banque bien conçu. Les

espèces retirées d'une banque sont immédiatement déposées dans une autre. Le drainage d'espèces pour le dehors, est un embarras plus sérieux ; mais on pourrait l'annihiler, ou au moins l'atténuer dans une grande proportion, si la science monétaire était bien comprise et appliquée aux banques d'émission.

Nous avons déjà indiqué les effets désastreux du combat pour l'or entre les banques d'Europe, — nous pourrions dire du monde entier. Maintenant la question se pose ainsi : Comment éviter la guerre des banques ? Ne pouvons-nous pas empêcher le conflit en établissant entre les banques un concert d'action ? Ne pouvons-nous pas introduire dans la banque, comme en d'autres choses, les principes d'union et de coopération, au lieu du système actuel de concurrence et d'hostilité ? Même dans la politique internationale, la plus ardue de toutes les questions, l'idée d'un congrès devient de jour en jour plus puissante ; un jour ou l'autre le congrès se tiendra, au moins avec quelque succès, et avec un profit égal pour les nations. En industrie et en finance, la coopération est déjà à l'ordre du jour. La mutualité, combinant et accordant les intérêts et les ressources des concurrents, devient le grand levier du progrès industriel et commercial. Il est vrai que la coopération des banques d'un pays ou même d'une ville est moins reconnue comme principe, moins développée comme système. C'est seulement dans de rares circonstances et à de longs intervalles que la sagesse et la valeur pratique de ce principe sont reconnues et triomphent du système caduc d'égoïsme et d'isolement, — ce système qui fait que chaque banque reste passive en temps de panique et de crise, et conserve, pour son propre usage, son stock monétaire, qu'elle en ait ou non besoin.

Le premier fait qui frappe l'observateur est qu'à présent les banques de tous les pays non-seulement sont complètement isolées les unes des autres, mais encore qu'elles ne font jamais aucun effort pour mettre la communauté commerciale de leur propre pays à l'abri des effets du drainage des espèces. Elles conservent leur réserve de *securities* sous une forme qui n'est pas réalisable, et certainement ne pourraient la réaliser elles-mêmes pour faire face à un drainage provoqué par les exportations. Voyons, par exemple, la Banque d'Angleterre. La réserve de *securities* du département des affaires de banque consiste en fonds d'État, qui, vendus ou engagés en nantissement d'un prêt, ne fournissent pas d'espèces, — la Banque étant payée avec ses propres notes, qui ont cours légal. La Banque de France est dans le même cas, ainsi que les banques de tous les pays. Par conséquent, le premier moyen d'améliorer le système actuel que nous suggère ce système même, c'est que les grandes banques doivent constituer une partie de leur réserve de *securities* en fonds étrangers, — en fonds des pays qui généralement nous demandent des espèces, — ce qui veut dire pour nous, Paris, Calcutta, New-York. En vendant ces fonds, ou en les donnant pour gage d'un emprunt, la banque serait dans la possibilité de tirer sur ces places des traites équivalant à des espèces, et, par conséquent, *pro tanto*, de prévenir l'exportation des métaux précieux.

Ce serait incontestablement une grande amélioration au système actuel, et nous espérons la voir bientôt adopter. Mais elle ne sera que bien insignifiante et secondaire, comparée aux progrès qui seront accomplis dans la science de la banque. La banque doit prendre un caractère international. En toutes choses, c'est la tendance de notre époque. Les barrières de séparation qui ont si longtemps tenu les popu-

lations à l'écart de leurs voisins s'écroulent. En finance, — le plus cosmopolite de tous les commerces, — nous voyons déjà que le nouveau système d'accord est librement adopté. Anglais, Français, Allemands, Russes, Américains, souscrivent aux mêmes emprunts, coopèrent financièrement aux mêmes entreprises. Les banques doivent entrer dans cette voie de progrès. Au point de vue financier, au moins, l'Europe est devenue une communauté, et l'un des besoins urgents de notre époque, c'est l'établissement d'une Banque d'Europe.

Étudions cette question, l'établissement d'une banque d'Europe, au point de vue pratique. La difficulté financière est nulle. Déjà les capitalistes de tous les pays sont entrés librement en coopération. La seule difficulté matérielle à l'établissement d'une banque d'Europe est — que les grandes banques font des bénéfices en dehors de leur politique de guerre actuelle; cette sorte de guerre ne leur coûte rien, puisque c'est en même temps un des moyens par lesquels elles prélèvent une plus grande partie des bénéfices du commerce de chaque nation. Soit, que ces grandes banques elles-mêmes fondent la Banque d'Europe; qu'elles en dirigent l'administration, qu'elles en rédigent les statuts, qu'elles en partagent les bénéfices. Que la Banque d'Europe soit fondée par la coopération, l'accord mutuel des banques nationales de chaque pays — par les Banques d'Angleterre, de France, de Hollande, de Belgique, d'Italie, de Turquie, de Saint-Pétersbourg, Berlin, Vienne, etc. — ou par celles de ces banques qui sont maintenant prêtes à coopérer.

Maintenant voyons la constitution de cette banque. Les Banques d'Angleterre et de France souscriraient probablement chacune un quart du capital demandé; chacune des banques coopérantes serait représentée dans l'administration, et parta-



gerait les bénéfices dans la proportion du capital souscrit par elle. Quant à la forme dans laquelle le capital serait souscrit et conservé, cela dépendrait uniquement des fonctions de la banque. La tendance naturelle des établissements financiers qui réussissent est d'étendre leur action, — de donner plus d'extension non-seulement au chiffre, mais encore à la nature de leurs opérations. Mais envisageons la Banque d'Europe sous sa forme primitive, — c'est-à-dire non comme une banque de dépôt, non comme une source de papier-monnaie international, mais simplement comme un intermédiaire pour le mouvement international des capitaux, comme un moyen d'économiser notre stock de métaux précieux, d'amoindrir l'incessant et capricieux flux et reflux des espèces, en établissant dans une mesure limitée un mode de paiements internationaux en Europe, en dehors des exportations métalliques. Pour atteindre ce but, — comme nous le verrons par la suite, — le capital de la banque doit consister seulement en fonds d'État, garantie suffisante de ses opérations. Il se composera de fonds d'États des divers contrées qui y coopéreront. Chacune des banques coopérantes et associées souscrirait sa part de capital en fonds d'État de son pays, — dont la valeur serait établie par la cote à la Bourse. En dernière analyse, pendant ce temps, — c'est-à-dire aussi longtemps que la banque se renfermerait dans ses attributions primitives d'intermédiaire pour les paiements internationaux, — son capital se composerait de tant de millions en fonds des divers gouvernements d'Europe, dont la moitié environ serait en fonds français et anglais, et l'étendue de ses opérations serait limitée par le montant de ces fonds.

Une semblable banque rendrait d'immenses services aux intérêts industriels, commerciaux et monétaires de l'Europe. Voyons comment elle se conduirait dans le cas où un pays

d'Europe drainerait l'or d'un autre pays. Tant que les négociants peuvent trouver des billets pour solder leurs dettes ou faire leurs achats au dehors, ils n'ont nul besoin d'espèces ou de tout autre moyen de circulation internationale. Mais, quand, en raison d'une mauvaise récolte ou des exigences commerciales ou financières, le montant des traites sur l'étranger qui se trouve dans un pays ne suffit pas à ses paiements extérieurs, capitalistes et négociants vont à la Banque chercher des espèces pour l'exportation. Mais il est peu commode d'envoyer des espèces, et les négociants n'auraient pas recours à ce mode de paiement s'ils trouvaient un autre moyen moins embarrassant. Ce moyen, ils l'auraient si la Banque d'Europe était établie. Au lieu de prendre de l'or de la banque, ils demanderaient une traite sur la Banque d'Europe, ce qui leur serait plus utile parce qu'ils pourraient s'en servir comme d'un effet de commerce. Supposons, par exemple, que pour des raisons quelconques nos capitalistes ou nos négociants aient à transmettre à Saint-Pétersbourg, à Paris, à Constantinople, ou sur toute autre place du continent, deux millions sterling en sus des billets de commerce qu'ils possèdent, payables sur ces places. Au lieu de prendre l'or à la Banque, ils lui demanderont une traite sur la Banque d'Europe; ils la transmettront sur la place où ils ont à payer, — soit Paris; ceux qui recevront cette traite la porteront à la Banque de France, et le montant sera porté à leur crédit comme dépôt, ou leur sera soldé en billets de banque. La Banque de France, à son tour, enverra la traite à la Banque d'Europe, le montant en sera retiré du crédit de la Banque d'Angleterre et passé au crédit de la Banque de France; la transaction sera terminée. Il n'y aura eu besoin ni d'espèces, ni de monnaie d'aucune sorte. Seulement, sur les livres de la

Banque d'Europe, il y aura eu transfert de deux millions sterling du crédit d'une des banques associées au crédit d'une autre. L'établissement d'une Banque internationale de cette espèce, en fait, ne serait que l'extension du système des chèques et du Clearing-House à l'organisme des banques en Europe. Résultat probable, une grande économie d'espèces, ainsi que le système des chèques et le Clearing-House ont économisé dans une immense proportion notre monnaie circulante de toute nature à l'intérieur.

Comme ces traites internationales de banque seraient préférées au transport embarrassant et coûteux des espèces, on ne retirerait de la Banque d'Angleterre (ou de toute autre banque nationale d'Europe) que peu ou point d'or, jusqu'à ce que la Banque eût épuisé son crédit à la Banque d'Europe. Le montant des traites qu'elle pourrait émettre serait celui du capital déposé par elle à la Banque d'Europe, en fonds d'État, et ce montant pourrait au besoin être augmenté par le dépôt d'une nouvelle quantité de fonds d'État. Ce serait une source de bénéfices pour les grandes banques, car au lieu d'avoir à conserver les énormes sommes de capital dormant qu'elles possèdent maintenant, pour satisfaire aux besoins de leurs clients, elles pourraient en employer une partie (égale au capital qu'elles auraient déposé à la Banque d'Europe), en fonds portant intérêts. Quand une des banques associées (soit la Banque d'Angleterre ou la Banque de France), aurait émis des traites internationales pour tout le montant de son crédit à la Banque d'Europe, alors, mais alors seulement, elle serait exposée au drainage des espèces. Et l'on ne peut pas croire qu'aucune banque voudra encourir les embarras d'un drainage d'espèces, quand elle pourra répondre aux demandes de ses clients d'une manière plus avantageuse pour eux et plus profitable pour

elle-même, en augmentant momentanément son dépôt de fonds publics portant intérêt à la Banque d'Europe. Le plus souvent, quand il se produit un mouvement d'espèces, si certains pays doivent en exporter, d'autres en possèdent une abondance extraordinaire; de sorte que les banques qui reçoivent les espèces, et par conséquent n'auront pas besoin de tirer sur la Banque d'Europe, consentiront volontiers à mettre leur crédit (ou le montant de leurs sécurités) dans la Banque d'Europe, moyennant intérêt, à la disposition des banques d'où l'or sortira. Dans l'application, ce serait même une initiative à prendre par la Banque d'Europe elle-même. Ce ne serait pas un prêt temporaire de fonds publics d'une banque à une autre, mais un prêt, ou un transfert momentané de fonds publics du crédit d'une des banques associées à une autre, qui serait examiné et consenti par le Conseil général de la Banque.

Ceux qui sont versés dans ces matières comprendront suffisamment les effets de l'établissement d'une semblable banque par ce que nous en avons déjà dit. Mais pour les lecteurs moins spéciaux, qu'on nous permette d'ajouter quelques mots concernant les traites internationales. La grande circulation du monde, ce sont les effets de commerce. Le commerce a créé à son usage une forme internationale de papier de circulation qui, transmis par la poste, est aussi valable pour effectuer un paiement que si on avait envoyé une somme égale en espèces. Mais ces effets de commerce, quoique très-suffisants pour le but qu'on veut atteindre, ne peuvent être transformés en argent (si ce n'est par *option*) (1) excepté chez un certain individu (l'accepteur) et après un certain temps. Ainsi (sauf l'*option*), ils ne peuvent pas être immédiatement transformés en

(1) Ou escompte.

argent, et le plus souvent ils circulent sur le crédit de deux personnes, le tireur et l'accepteur. Cependant cette circulation d'effets est de beaucoup la plus considérable et la plus courante qui existe sur le globe. Qu'on remarque maintenant — bien qu'il soit superflu de le dire — l'immense supériorité des traites internationales de banque dont nous parlons sur les effets de commerce de la meilleure catégorie. D'abord elles seront garanties non par le crédit d'individus, non pas même seulement par le crédit de la banque qui les émettra, mais par le crédit de la Banque d'Europe elle-même — c'est-à-dire de toutes les grandes banques européennes jusqu'à concurrence du montant du capital qu'elles auront souscrit dans cette banque. En second lieu, ces traites pourraient être converties instantanément en espèces dans toute l'Europe; elles seraient payables en espèces à vue dans toutes les capitales de l'Europe, et sur toutes les places où une banque nationale aurait des succursales, et chaque porteur pourrait en recevoir le montant exactement dans l'espèce de monnaie qu'il exigerait. Supposons qu'un Français ou un Russe reçoive d'un débiteur anglais 100,000 souverains. Ces monnaies ne circuleront ni en France, ni en Russie; il devra les porter à une banque ou à un marchand de monnaies, et les changer contre des monnaies de son pays. Les traites internationales, les chèques de la Banque d'Europe seront payables en tout pays, dans la monnaie du pays. En Russie, elles seront payables en roubles; en France, en francs et napoléons; en Angleterre, en souverains ou en billets ayant cours légal, pour toute la somme qu'elles porteront.

Tout en économisant les espèces comme moyen de circulation internationale, ces traites de banque, il est inutile de le dire, ne provoqueront de demandes d'espèces près d'aucune

des banques associées auxquelles on les prendra. Si un négociant français reçoit une de ces traites émises par la Banque d'Angleterre, il la portera à la Banque de France ou à une de ses succursales, et en placera le montant en compte courant à son crédit, ou, s'il a besoin d'argent, se la fera payer en billets de banque. Les espèces (sauf les appoints) ne sont demandées que pour des paiements à l'extérieur ; et le pays auquel on enverrait de ces traites serait nécessairement un de ceux vers lesquels les espèces se dirigent, et par conséquent, on ne conçoit pas comment il y aurait exportation d'espèces. Les traites ne seraient tirées que quand on aurait à envoyer dans un pays des capitaux plus considérables que le total des effets de commerce que l'on posséderait sur ce même pays ; en d'autres termes, quand les changes (indicateurs de la balance des transactions commerciales et financières) seraient en faveur, quand les espèces y afflueraient et s'y accumuleraient, et quand il n'y a pas lieu d'en exporter.

D'autre part, tout en diminuant la pression exercée sur les banques dans les moments exceptionnels (qui malheureusement deviennent plus fréquents que jamais), et en fournissant au public des moyens plus commodes d'opérer les paiements à l'extérieur, le nouveau système que nous proposons — ce développement et ce complément du système bancaire de l'Europe — ne limiterait en rien la libre action des banques ou de la communauté financière. Les banques ne seraient pas forcées d'émettre ces traites internationales, le public ne serait pas obligé de les accepter. Si la Banque d'Angleterre ou toute autre des banques associées possédait un stock trop considérable d'espèces, au lieu de donner des traites sur la Banque d'Europe, elle payerait en espèces. Elle n'émettrait ces traites que quand son encaisse métallique serait descendu au-dessous

du niveau normal. Le public, de son côté, pourrait toujours demander des espèces aux banques, comme à présent. Comme les traites seraient plus commodes et moins coûteuses que l'argent à exporter, elles seraient toujours en faveur. Il est difficile de concevoir un motif qui pourrait décider quelqu'un à demander de l'argent pour l'exporter dans quelque contrée de l'Europe que ce soit, s'il pouvait au lieu de cet argent expédier une traite internationale. Par exemple, qu'un Anglais ait à payer 100,000 liv. sterl. à un négociant français, et ce négociant français une somme égale à un marchand russe; la traite internationale reçue d'Angleterre par le Français sera expédiée en Russie, et l'affaire sera liquidée; le Russe encaissera la traite à la Banque de Saint-Pétersbourg, et le montant en sera transféré à la Banque d'Europe, du crédit de la Banque d'Angleterre à celui de la Banque de Saint-Pétersbourg. Cette dernière possédera alors une partie plus forte du capital de la Banque d'Europe, et la Banque d'Angleterre une moins forte. En d'autres termes, la faculté de tirer sur la Banque d'Europe et de participer à ses bénéfices (c'est-à-dire l'intérêt sur les fonds publics, moins les frais d'administration), sera momentanément accrue pour la Banque de Saint-Pétersbourg et amoindrie pour la Banque d'Angleterre.

Si cette Banque d'Europe était constituée, sans aucun doute celles de New-York et de l'Inde entreraient dans la combinaison, de sorte que les opérations embrasseraient toute la sphère des transactions commerciales et financières. Le flux et le reflux des espèces continueraient évidemment, mais considérablement atténués. Les espèces, par exemple, prendront toujours la route de l'Inde et de l'Orient, tant que ces contrées exporteront beaucoup et importeront peu. Ce sont les drainages d'espèces accidentels et de peu de durée qui occasion-

nent maintenant nos embarras monétaires sans cesse renaissants. En quelques mois, l'embarras disparaît, — le courant des métaux précieux reprend sa direction, obéissant aux conditions normales du commerce. Mais, pendant ce court intervalle, quelles calamités fondent sur le commerce dans le système actuel — sous l'empire de la politique d'isolement adoptée par les banques ! Ces drainages, ces marées accidentelles de l'argent des banques d'un pays séparé seraient amoindris par l'établissement d'une Banque d'Europe. La marée accidentelle serait neutralisée en grande partie, et l'équilibre naturel rétabli.

A quelle importance, à quelle variété d'opérations pourrait arriver avec le temps une Banque d'Europe ainsi constituée, nous ne croyons pas nécessaire de le discuter. Naturellement, les banques, autres que les grandes banques nationales (si elles avaient des motifs suffisants pour agir ainsi), viendraient s'y joindre. Ce serait la banque des banquiers. Elle serait aux banques ce que les banques sont aux particuliers. Ses dépôts seraient exclusivement ceux des banques, des banques principales de l'Europe. Mais en la considérant dans sa forme la plus simple, comme nous l'avons indiqué plus haut, les avantages qui résulteraient de la constitution d'une telle banque seraient immenses. Pour les banques associées, elle serait un avantage, en ce sens qu'une partie de leur réserve de rente serait placée sous une forme équivalente à des espèces, tandis qu'à présent elles sont inutiles, et ne sont certainement jamais employées pour réaliser des espèces. En fait, une plus grande partie de leur réserve pourrait être employée en fonds portant intérêt (déposés à la Banque d'Europe, et par là convertibles en monnaies de tous les pays), tandis qu'il leur faudrait en immobiliser moins sous la forme de métal



improductif. Pour le commerce également ce serait un avantage, d'abord parce que les traites internationales seraient un moyen moins coûteux et plus commode que l'exportation d'espèces pour effectuer des paiements au dehors. Ensuite et surtout, parce qu'elle atténuerait les embarras occasionnés en matière de banque par les drainages temporaires de métal qui nous frappent si souvent, permettrait aux banques de conduire avec sécurité et profit leurs affaires dans ces moments exceptionnels, sans recourir aux taux exorbitants d'escompte qui toujours et toujours ruinent le commerce et l'industrie, renversent les bonnes maisons, privent d'emploi des milliers de travailleurs, et ralentissent le progrès d'ailleurs certain de la richesse et de la prospérité nationales.

Une réduction dans les frais de banque devrait être toujours un bénéfice proportionnel pour la communauté, de même qu'une réduction du prix de l'outillage dans les manufactures, ou du prix des aliments, ou du prix des matières premières, est un bénéfice pour toutes les classes. L'adoption des machines dans les manufactures a considérablement diminué le prix des vêtements et des fournitures de toutes espèces ; l'introduction analogue de machines et de méthodes scientifiques de travail a diminué les prix des aliments, et avant longtemps remportera des triomphes plus éclatants encore. Mais, pour que la communauté en tire profit, il ne faut pas que ces avantages constituent un monopole légal. Si une seule grande manufacture était autorisée par l'État à se servir de machines, la communauté ne profiterait pas de la réduction des frais. Pourquoi ? parce que chaque maison, chaque compagnie tend naturellement et invariablement à obtenir les plus hauts prix possibles pour ses marchandises, — pour le produit qu'elle vend. Si donc une seule grande maison ma-

nufacturière était autorisée à se servir de machines, et si toutes les autres maisons du même genre étaient privées par un acte du Parlement de ce moyen de produire à meilleur marché, cette maison privilégiée profiterait de son monopole simplement comme d'un moyen d'accroître le taux de ses bénéfices, et augmenterait ses prix d'autant plus que les autres seraient forcés d'employer les moyens les plus coûteux pour fabriquer. Ces dernières ne pourraient lui faire concurrence ; elles ne pourraient vendre au-dessous de ses derniers prix : la maison privilégiée elle-même ne voudrait pas abaisser les siens, — elle préférerait vendre aux mêmes prix que les maisons placées dans les conditions ordinaires, et encaisser tous les bénéfices de surplus que son monopole lui assure. Prenons un autre cas. Qu'un seul individu soit propriétaire des trois quarts de la terre d'un pays, et que, suivant les prescriptions de l'ancienne loi sur les blés, il y ait un droit sur les blés étrangers : quelle sera la conséquence ? Cet homme sera maître du marché. Tenant dans ses mains presque tous les blés du pays, il pourra en exiger un prix excessif ; son prix de vente ne sera pas déterminé par le coût de production mais seulement par la demande, les besoins du peuple ; — il forcera à payer le prix le plus élevé possible pour ses marchandises, qui sont les nécessités de la vie. Les autres fermiers du pays, en petit nombre et trop faibles pour lui faire concurrence, se coaliseront volontiers avec lui et demanderont les mêmes prix.

Or, ce que la nourriture et le vêtement sont pour la communauté, la monnaie l'est pour tout le monde, et spécialement pour les classes commerçantes. La monnaie est aussi nécessaire à la vie du commerce que la nourriture à la vie de l'humanité. Et de nos jours plus que jamais, sans le com-



merce, pas d'alimentation. Et cependant, dans cette fonction, la plus importante de toutes, — dans notre organisme monétaire, — la communauté ne peut s'adresser, pour ses besoins, qu'à un monopole. Les banques d'émission exercent un monopole étroit, et, plus que jamais, elles sont soumises aux restrictions les plus erronées et les plus injustes; jusqu'à ce que ce système soit aboli, la valeur de la monnaie n'obéira pas à la loi de l'offre et de la demande. — Aussi, quels que soient les nouveaux avantages dont on gratifie les banques, elles ne seront pas utiles à la communauté tant que notre système de banque sera soumis au régime du monopole. Même si, par l'établissement d'une Banque d'Europe, les frais de banque étaient réduits, le public n'en profiterait pas d'un iota, tant qu'on laisserait subsister le monopole actuel de la circulation de banque. La Banque d'Angleterre est un établissement particulier. Sous un point de vue, il est vrai, c'est une Banque d'État; — elle est chargée d'encaisser les soldes créditeurs du Trésor, de faire le service de la dette nationale, et elle réalise des bénéfices sur ces deux sortes d'opérations; cependant on ne lui impose aucune restriction pour le taux d'intérêt des prêts qu'elle fait avec l'argent du Gouvernement ou avec toute autre partie de ses dépôts. Sa manière d'opérer est celle d'un établissement particulier placé dans les conditions ordinaires, et elle ne s'occupe que de réaliser le plus de bénéfices qu'elle peut. A cet égard, elle n'a pas à craindre la concurrence d'aucune autre banque, car il n'y a pas de banque d'émission qui puisse lutter avec elle. Elle a réellement le monopole de la circulation de banque. La circulation de ses billets dépasse les trois quarts de l'émission totale en Angleterre: elle se montre en moyenne à 21 millions (525 millions de francs), tandis que celle des autres ban-

ques d'émission en Angleterre ne s'élève qu'à 7 millions (175 millions de francs). Bien plus, ces 7 millions (175 millions de francs) sont répartis entre 200 banques, ce qui donne pour chacune une émission moyenne de 35,000 liv. sterl. (875,000 francs). Aucune de ces banques ne peut, sous aucune condition, augmenter son émission. Donc, comme on le voit, aucune ne peut faire concurrence à la Banque d'Angleterre. Bien que beaucoup de ces banques d'émission arrivent à traiter leurs affaires (en prêtant leur capital) à un taux plus faible que celui qu'impose souvent la Banque d'Angleterre, chacune sent qu'elle ne peut espérer d'entrer en compétition avec elle; la conséquence naturelle est qu'elles suivent son exemple (1), et exigent le plus haut prix possible de l'argent, cette marchandise spéciale que vendent toutes les banques. Et ce prix, nous le répétons, est un prix de monopole.

C'est là un fait important, même au point de vue international; mais il est plus grave encore en ce qui concerne notre

(1) La seule différence qui existe jamais entre le taux demandé par les autres banques, ou plutôt par les maisons d'escompte, et celui de la Banque d'Angleterre, provient de considérations spéculatives sur cette éventualité : Oui ou non, la situation de la Banque d'Angleterre s'améliore-t-elle ou peut-elle s'améliorer? S'il est évident que la situation de la Banque s'améliore, les autres banques et les maisons d'escompte prennent quelquefois le papier un peu au-dessous du taux de la Banque. Mais si l'on ne juge pas que la position de la Banque doive s'améliorer, elles demandent le plein taux de la Banque. Bien plus, si la situation de la Banque est mauvaise, ou tend à le devenir, les autres banques, et surtout les maisons d'escompte, refusent de prendre le papier à quelque condition que ce soit. En fait, la situation de la Banque d'Angleterre et sa manière d'opérer sont les seules règles de conduite des autres banques. Elles peuvent, pour nous servir du mot technique, «escompter» un abaissement probable du taux fixé par elle, mais c'est là tout.

nation. De toutes les banques d'Europe, c'est la Banque d'Angleterre qui élève le taux de l'intérêt le plus souvent, le plus soudainement, et dans les proportions les plus exorbitantes. C'est la Banque d'Angleterre qui, dix-neuf fois sur vingt, déclare la guerre aux autres, — qui engage la guerre des banques, dont nous avons déjà complètement décrit les effets désastreux sur le commerce, l'industrie et la situation générale des nations. La Banque d'Angleterre règle le taux de l'argent chez nous ; toutes les autres banques la suivent. Comment pourraient-elles faire autrement ? En agissant ainsi, elles augmentent considérablement leurs bénéfices. Si elles avaient quelque chance de faire concurrence à la Banque d'Angleterre, quelques-unes d'entre elles suivraient une marche opposée. Elles diraient : « Nous pouvons bien arriver à prêter à un taux moins élevé, et ainsi augmenter notre chiffre d'affaires, — nous attirerons les clients des banques qui suivent l'exemple de la Banque d'Angleterre, et nous obtiendrons de plus grands bénéfices qu'à présent, même en exigeant un intérêt moins élevé. » Sous l'empire de la loi actuelle, une telle concurrence est impossible. Le montant des billets que peuvent émettre les banques est rigoureusement fixé par l'acte de 1844 ; on ne permet à aucune nouvelle banque d'émission de s'établir, et aucune des banques d'émission existantes (à l'exception de la Banque d'Angleterre) ne peut augmenter sa circulation à aucune condition, quand bien même ses clients voudraient de ses billets. Le monopole de la circulation de banque a donc été accordé aux banques d'émission existant avant 1844, mais spécialement à la Banque d'Angleterre. Et comme un grand nombre des banques secondaires perdent ou abandonnent leur droit d'émission, pour s'affranchir d'autres restrictions (telles que l'interdiction d'avoir leurs

bureaux à Londres) qui leur ont été imposées en faveur de la Banque d'Angleterre par l'acte de 1844, le monopole de fait que possède la Banque d'Angleterre devient plus puissant d'année en année.

Nous avons vu que la guerre des banques est surtout, si ce n'est entièrement, causée par l'initiative d'agir de la Banque d'Angleterre. Toujours et toujours elle élève le taux de l'es-compte à un chiffre exorbitant. Chaque année la situation empire. Pourquoi cela ? D'abord, parce que le montant de la circulation de banque a été fixé en 1844 et que (pour parler absolument) il ne peut être augmenté ; tandis que le commerce et les besoins monétaires du pays augmentent rapidement. La Banque d'Angleterre (la seule qui ait le droit d'augmenter son émission) n'a aucune raison qui la détermine à accroître son émission en proportion des besoins de la communauté. Au contraire, elle fait des bénéfices bien plus considérables en maintenant la circulation au-dessous du chiffre nécessaire. Ainsi, sous le système actuel, nous avons une circulation limitée en présence d'un commerce qui s'étend toujours. C'est comme si l'on enchaînait un vivant avec un cadavre. C'est la torture de Mézence appliquée en pleine civilisation, au milieu du *xix<sup>e</sup>* siècle. Dans l'an de grâce 1844— la postérité le croira-t-elle ? — un acte du Parlement limita l'usage du papier-monnaie dans les Iles Britanniques. Quelle est la conséquence ? Depuis lors, la situation monétaire du pays a rétrogradé au point où elle en était à la fin du *xvii<sup>e</sup>* siècle. Dans la seconde moitié du *xix<sup>e</sup>* siècle, notre système monétaire est semé d'autant de restrictions qu'il l'était au *xvii<sup>e</sup>* siècle et dans les siècles précédents. Maintenant comme alors, nous devons, pour ajouter ce qui est nécessaire à notre circulation, ainsi qu'à nos moyens de nous procurer des ca-

pitaux, recourir aux espèces. Depuis 1844, notre commerce a triplé, ainsi que le capital employé en banques. Pour chacune de ces causes, les besoins monétaires du pays se sont accrus. Il nous faut plus d'argent pour les changes commerciaux ; il faut que les banques aient plus d'argent à leur disposition. Mais, grâce au développement du système des chèques et des clearing-houses, — sans parler des découvertes des mines d'or, — nous avons jusqu'ici évité de nous engager dans l'impasse. Ainsi que l'établissent les rapports de la Monnaie, nous avons ajouté environ 100 millions sterling (2,500,000,000) à notre circulation métallique depuis 1844 ; et voici qu'en dépit de ce fait, notre circulation devient chaque année moins capable de faire face aux besoins. Bien plus, nous avons maintenant épuisé tous les palliatifs du système réactionnaire. Le système des chèques est maintenant d'un usage universel, et par l'entrée de la Banque d'Angleterre dans le Clearing-House, il a atteint son complet développement. Nous avons poussé au dernier point l'économie de notre monnaie, de sorte que les chocs subis par notre système monétaire commencent à produire leurs effets désastreux sans que rien les amortisse. Tant que le mécanisme des chèques et du Clearing-House n'a été qu'imparfaitement établi, quand les découvertes inattendues des mines d'or sont venues à notre secours, les dangers résultant du système réactionnaire établi en 1844 ne se sont manifestés que par intervalles, bien que d'une manière funeste. *Maintenant*, les effets se produisent en permanence. La production des nouveaux gisements d'or a atteint son maximum, et semble même décliner ; les ressources fournies aux banques par les chèques et le Clearing-House sont arrivées à leur apogée. Sous l'empire du système actuel il n'y a plus rien à faire, rien à attendre ; et aussi

chaque année nous avons davantage à souffrir des dangers d'une circulation artificiellement restreinte. L'industrie nationale, la prospérité nationale sont de plus en plus exposées aux désastreux conflits résultant de l'existence simultanée d'une circulation limitée et d'un commerce qui s'étend sans cesse.

C'est la première, la plus essentielle forme du danger qui menace la communauté; mais ce n'est pas tout. Car, en second lieu, cette restriction artificielle et arriérée imposée à la circulation, est combinée avec le monopole, — monopole conféré aux banques d'émission établies avant l'acte de 1844, et spécialement à la Banque d'Angleterre. L'effet de ce monopole est double. D'abord la Banque d'Angleterre (la seule banque en Angleterre qui puisse, dans certaines conditions, augmenter son émission) étant à l'abri de toute concurrence, n'a aucun motif de mettre sa circulation en rapport avec les besoins croissants de la communauté. Elle peut étendre son émission sans limites, pourvu qu'elle s'approvisionne d'or; mais jamais elle ne prend de mesures pour s'assurer cet approvisionnement. Sous le système actuel, pourquoi prendrait-elle ces mesures? Il est bien plus profitable pour la Banque de maintenir une circulation insuffisante que de faire face aux besoins du public en s'approvisionnant d'une plus grande quantité d'or, sur la garantie de laquelle de nouvelles notes pourraient être émises. Et toute les fois que l'insuffisance de circulation se produit au degré le plus insignifiant, la banque fixe le prix de famine pour ses marchandises, pour l'argent, qui est la marchandise dont elle fait trafic. Si l'importation des blés étrangers n'était pas permise, une mauvaise récolte, une disette seraient une source de profits pour les fermiers. A mesure que la quantité des choses nécessaires à la vie diminue,



leur prix augmente par progression géométrique. Le peuple a besoin de nourriture, et toute diminution dans la récolte ordinaire amène les prix de famine, de sorte qu'une récolte insuffisante est plus avantageuse aux fermiers qu'une récolte abondante. Il en est de même pour la circulation monétaire. Si le public demande à la Banque d'Angleterre pour 2 millions de notes de plus, cet accroissement de demandes (bien qu'il n'atteigne que le dixième de l'émission ordinaire), fera monter l'escompte de 100 p. 100 ! Ou bien, s'il s'agit d'un retrait d'or, la circulation est réduite de 2 millions au-dessous de son chiffre ordinaire, et le même résultat se produit. Il est vrai que la Banque peut augmenter proportionnellement son émission dans le premier cas, et en empêcher la réduction dans le second, en prenant des mesures pour renforcer son encaisse ; mais jamais elle n'y a recours (1). Il est plus avantageux pour la banque de maintenir la circulation insuffisante. Ainsi, sur l'escompte de 18 millions d'effets à 10 p. 100, la banque fait trois quarts de bénéfices de plus que si elle accroissait son

(1) Par exemple, pendant les trois derniers mois la Banque d'Angleterre a eu constamment la possibilité d'emprunter 5 millions de liv. st. en or (ou le double si elle l'eût désiré) sur les inscriptions de fonds publics que possède le département des affaires de Banque, en s'adressant à la Banque de France, qui en même temps était atteinte d'une pléthore d'espèces. Mais la Banque n'en a rien fait ; elle n'a point même songé à se pourvoir d'une quantité d'or plus considérable qu'à l'ordinaire pour pouvoir augmenter son émission. La conséquence, c'est que depuis trois mois nos classes commerciales et manufacturières ont été écrasées par un taux *minimum* de 10 0/0, tandis que leurs rivaux de France ne payaient que 3 1/2. Que dirait-on si le blé se vendait en France 35 shillings le quarter, tandis qu'il coûterait 5 liv. st. en Angleterre ? (38 fr. 75 et 125 fr.) Avec un organisme régulier, le premier cas serait aussi impossible que le dernier.

émission et escomptait 34 millions de billets au taux ordinaire, 5 p. 100. La Banque d'Angleterre, nous le répétons, bien que grandement favorisée par l'État, conduit ses affaires absolument comme un établissement privé, sa seule règle est de réaliser le plus de bénéfices qu'elle peut. Pourquoi donc, comme toutes les autres banques, ne défendrait-elle pas le système actuel, qui, en maintenant perpétuellement une circulation insuffisante, leur donne les moyens de doubler leurs bénéfices sans frais ni risques ?

Le monopole actuel de la circulation de banque est un fléau matériel et palpable ! La Banque d'Angleterre et les banques d'émission qui agissent dans son orbite, non-seulement gagnent davantage au système de circulation restreinte établi en 1844, mais la banque peut, en réalité, changer le niveau du taux de l'intérêt dans le pays par un simple changement dans sa manière d'opérer. C'est une situation incroyable, mais sa réalité est patente pour tous ceux qui savent étudier les faits. C'est un fait — établi par les bilans hebdomadaires de la banque — que celle-ci demande maintenant 8 p. 100, tandis que récemment encore, dans des circonstances semblables, elle n'exigeait que 4 à 4 1/2 p. 100. C'est ainsi que le niveau de l'intérêt dans notre pays a été constamment en s'élevant, et par suite de cette manière d'agir de la Banque, un résultat semblable, dans une certaine mesure, s'est produit dans toute l'Europe. Le résultat général est que les bénéfices considérablement accrus des banques, des sociétés financières, de tous les vendeurs d'argent, ont été obtenus aux dépens du commerce et de l'industrie, qui emploient l'argent.

L'Angleterre est le théâtre principal des crises monétaires. Comme l'Égypte est la mère-patrie de la peste, et l'Inde du choléra, ainsi l'Angleterre est la source féconde des épidémies

monétaires qui, périodiquement, ravagent et accablent le commerce et l'industrie de l'Europe. Dans toutes les questions de réforme il est bon de commencer chez soi ; il est bon d'opérer d'abord là où on ne peut avoir à craindre d'entraves extérieures. Dans ce cas spécialement, il nous appartient de mettre d'abord notre maison en ordre, puisque c'est là que commence la conflagration qui consume les profits du commerce et de l'industrie. C'est là aussi que cette conflagration accomplit ses plus cruels ravages. Et la première chose à faire, c'est d'abolir le monopole actuel de circulation de banque. Quelles que soient les conditions que le Parlement croit devoir mettre à l'émission de la circulation de banque, que toutes les banques qui se soumettront à ces conditions aient des droits égaux. Que le monopole de la banque expire, comme tous les monopoles des autres commerces. Que la circulation soit assurée par tous les moyens. Que l'on prenne toutes les précautions que le Parlement jugera nécessaires pour assurer la valeur des billets ; mais que toutes les banques soient égales devant la loi. En se soumettant aux mêmes conditions, que toutes les banques aient la faculté d'émettre des billets. Quelles seront ces conditions, nous n'avons pas à le discuter ici. Que la partie soit égale, le commerce libre, la concurrence entière, et on aura gagné un grand point.

D'ailleurs il n'est pas difficile d'établir ce que pourront être ces conditions. Que la valeur matérielle de l'émission des billets soit garantie par un dépôt de consolidés (mis à part pour les porteurs de billets), sous le contrôle d'un préposé du gouvernement ; et ensuite que chaque banque ait la liberté d'émettre des notes jusqu'à concurrence des neuf dixièmes de la valeur des fonds qu'elle aura déposés : ces banques ayant d'ailleurs à assurer le remboursement de leurs notes en

espèces par les moyens qui leur paraîtront les plus praticables. Établir une règle d'après laquelle le remboursement des bank-notes devrait être assuré, serait une absurdité. Les conditions dans lesquelles se trouve chaque banque varient, suivant les exigences diverses de ses clients. Certaines banques sont engagées étroitement dans le commerce étranger, d'autres n'ont affaire qu'au commerce intérieur. Les clients des premières réclament toujours le remboursement de leurs dépôts, ou le paiement des billets qu'ils escomptent, en espèces destinées à l'exportation ; ceux des autres n'ont jamais de ces exigences. Or la grande majorité des banques appartient à la seconde classe ; leurs clients sont des commerçants, des boutiquiers, des fermiers, des propriétaires fonciers, ou des particuliers qui ne font point commerce ; aucun d'eux ne réclame ses dépôts sous forme d'espèces. Ainsi quelques banques doivent avoir sous la main une réserve d'or considérable, — non pas, il est vrai, pour garantir leur émission, mais pour le service des dépôts et des escomptes ; tandis que les autres banques, en grande majorité, ont à peine besoin d'aucune réserve métallique. Appliquer les mêmes règles à des banques dont le fonctionnement est si différent, serait absurde. Ce serait les étendre sur « le lit de Procuste. » La seule combinaison sensée est, comme nous l'avons dit, de garantir la valeur matérielle de toute la circulation de banque par un dépôt de fonds publics, et d'en laisser assurer le remboursement par les banques elles-mêmes, — chaque banque, sous peine de banqueroute, étant tenue d'assurer le paiement à vue de ses notes par les moyens que sa propre expérience lui aura démontrés comme suffisants.

Notre remède à la Guerre des Banques, on doit l'avoir vu, se présente sous deux formes : En premier lieu, nous avons

proposé d'obvier au flux et reflux momentané des métaux précieux — à ces oscillations temporaires qui, bien que le système actuel engendre d'immenses désastres, ne dérangent pas plus l'équilibre normal des métaux précieux, que les vagues ne changent les rivages de la mer — par l'établissement d'une Banque d'Europe, qui serait en réalité la Banque de toutes les banques principales du globe. Grâce à cette Banque, le système des chèques, tel qu'il existe maintenant entre les banques, deviendrait international. La Banque d'Europe serait le *clearing-house* (chambre de liquidation) de toutes les grandes banques du monde. Bien plus, nous n'en doutons pas, avec le temps, sinon dès l'abord, elle serait une source de papier-monnaie international. Si les banques en relation avec elle, au lieu d'émettre les traites considérables réclamées par les négociants ou les capitalistes qui, sans ce moyen, devraient exporter des espèces, étaient autorisées à émettre des traites ou des billets jusqu'à un minimum de 20 liv. sterl. (500 fr.) sur la Banque d'Europe, qu'arriverait-il? L'avantage ainsi procuré à la grande communauté serait presque aussi considérable que celui qu'assureraient au commerce les traites considérables. Par exemple, quiconque voudrait voyager sur le continent, passant d'un pays à l'autre, prendrait cinq ou dix de ces traites de 20 liv. sterl. sur la Banque d'Europe, et partout où il présenterait une de ces traites (ou bank-notes universelles), il en recevrait le montant dans la monnaie du pays où il se trouverait alors. Il encaisserait une de ces traites en France, une autre en Italie, une autre en Turquie, en Autriche, en Russie, suivant la direction de son voyage, et partout ces traites seraient *honorées* et payées en la monnaie de circulation qu'il désirerait.

Ainsi l'établissement d'une Banque d'Europe, telle que nous l'avons proposée, assurerait trois avantages. Le premier et le plus important, c'est qu'elle remédierait en grande partie au flux et reflux momentané des espèces d'un pays à l'autre, qui est maintenant le fléau du commerce, et constitue pour les banques un grand embarras. Le second, c'est qu'elle fournirait aux négociants et aux capitalistes pour effectuer leurs paiements internationaux, un instrument plus commode que celui qu'ils possèdent actuellement, quand ils n'auront pas à leur disposition d'effets de commerce : au lieu de recourir à une embarrassante exportation d'espèces, ils se procureront des traites qu'ils enverront par la poste. En troisième lieu, si l'on adoptait l'émission de traites comparativement peu élevées, tout voyageur ou touriste obtiendrait une provision d'une monnaie de circulation véritablement internationale, sous la meilleure forme possible, quant à présent, et même sous la meilleure forme qu'il soit possible de trouver.

Les deux derniers avantages mentionnés ne sont que d'une importance secondaire. C'est sur le premier, — sur la grande économie d'espèces qu'on obtiendrait par l'établissement d'une Banque d'Europe, que nous désirons attirer l'attention du public. Une banque de cette espèce sera certainement établie quelque jour. Toutes les tendances des affaires financières et commerciales sont dans cette direction. Notre projet n'est donc que l'indication anticipée de ce que tout le monde demandera avant longtemps.

L'établissement d'une « Banque d'Europe » est une forme du remède que nous proposons pour mettre fin à la Guerre des Banques. Il détruit complètement le péril, dans sa nature internationale. Mais le remède, — au moins en ce qui con-

cerne notre pays, — serait incomplet si nous ne faisons rien pour parer en même temps aux dangers du monopole de banque si déplorablement installé chez nous. Si l'on veut que l'Angleterre profite de la création d'un système monétaire international comme celui que nous avons proposé — que le public bénéficie de la diminution des frais de banque qui en sera le résultat, — le monopole actuel des banques, établi en 1844, doit être détruit. C'est là une raison de réformer notre système monétaire. C'est une raison d'avenir.

Mais un motif bien plus présent de la Réforme en matière de banque existe — et a existé depuis que le *régime* a été établi dans un moment de péril ; motif dont la puissance se fait sentir davantage d'année en année à l'industrie de notre pays. Nous avons deux choses à faire, et il faut les faire simultanément. Nous avons à sortir de la restriction et à renverser le monopole. Nous avons à annuler la prohibition établie en 1844, d'étendre l'usage du papier-monnaie comme circulation de banque. Pourvu qu'elles garantissent la valeur de leurs notes, nous devons autoriser les banques d'émission à développer cette émission suivant les désirs de la communauté et les besoins grandissants du commerce. Nous devons abolir le monopole, en concédant également à toutes les banques (soumises aux mêmes obligations) le droit d'user de leur crédit, comme font et ont toujours fait tous les négociants et tous les fabricants, tous les individus et toutes les compagnies. Cette abolition du système réactionnaire de restriction et de monopole en matière monétaire — cette application du principe de la liberté commerciale en toute matière de banque — sera aussi féconde dans ses effets sur le commerce libre et sur le bien-être national, que l'arrivée du printemps, faisant disparaître

les frimas d'un hiver prolongé. Si elle est accompagnée, comme nous croyons qu'elle le sera, de l'adoption d'un système monétaire international par l'intermédiaire d'une « Banque d'Europe », elle marquera une ère mémorable dans le progrès toujours croissant de la civilisation.

FIN.



THE QUESTION  
OF  
SEIGNORAGE  
AND  
CHARGE FOR COINING,  
AND THE  
REPORT OF THE ROYAL COMMISSION  
ON INTERNATIONAL COINAGE.

BY  
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**A**MONG the many objections which those opposed to the participation by Great Britain in the scheme of Universal Coinage are in the habit of urging, the question of Seignorage, Brassage, or Charge for Coining, is not the least important.

The term "Seignorage" may be defined as the charge levied by a Government, through its Mint, on Bullion imported for Coinage, such charge being made partly in order to defray the expenses of the Mint, and partly in order to afford a profit to the Government. The "Seignorial" right to issue Coin is used to enforce the circulation of the Currency thus made.

The term "Brassage," as used in France, for which in English the word "Mintage" may be accepted, and which we translate simply as "Charge for Coining," designates the actual cost of manufacturing Coin, without extra profit to the Government.

The distinction between these terms will be made clearer when we state that under a Seignorage the Coin made is forced into circulation at a rate below its intrinsic value;—a Gold Coin, for instance, if made as worth only 18 Shillings, and yet forced into circulation at 20 Shillings, would thus be charged with a "Seignorage" of 10 per Cent. Our Pound Sterling we know is of the full value of 20 Shillings.

The "Brassage," however, is levied in another

manner. The Coin made from Bullion is actually worth what it pretends to be according to law, and a French 20 Francs piece contains 20 Francs in Gold, the raw material only from which it is made has been taxed with the charge for Coining. The importer of Bullion has been made to pay "Brassage" before he receives the Coin.

In former times, before the questions of value and international commerce were studied as closely as they are now, the Rulers of individual States occasionally imposed a very heavy "Seignorage," by which they profited largely; the history of the currencies of many nations shows how much this forcible method of levying taxes has been abused, to the detriment of the welfare of the people. In modern times "Seignorages" are not used for the general purposes of taxation; the important and most valuable part of the Currency, made of Gold, circulates entirely free of Seignorage. In regard to the subsidiary Coinage, however, the "Seignorage" is still levied in certain countries. In England, for instance, the whole of the Silver Coinage is issued at a value above that of the Market price of Silver. English Standard Coin circulates at the value of 66 Pence per oz., whilst the oz. Standard in Silver Bars in the Market ranges at from 60 to 62 Pence.

In France, the Silver Coinage, from 2 Francs pieces downward, has also been debased in a similar manner, and the 5 Francs pieces alone are so far maintained at their intrinsic value. In Prussia, and other countries, where the "Silver Valuation" pre-

vails, it is necessary that the larger Silver Coins should be fully equal to their metal value. Almost all the Copper Coinages are heavily taxed: the British Penny, or the French Sou, are worth in metal, only 1 Farthing and a  $\frac{1}{4}$  Sou respectively. But, as a set-off against these very heavy charges of Seignorage, the laws provide that such subsidiary Coins shall be used only under certain limits. Thus, in England, nobody is obliged to take payment, in Pence, for more than 1 Shilling—(in  $\frac{1}{2}$  Pence, or Farthings, not more than 6 Pence)—and Silver Coin need not be accepted for sums higher than 40 Shillings. It has been found that, under this restriction, the issue of debased Coin is admissable, and that the public does not apparently suffer from this departure from the strict principles of Value. Subsidiary Coin is what is called a “Token” Currency, intended for local use, and is Money under “Limited tender;” whilst the large Standard of Value—Gold Coin—is the “Legal tender” money up to any amount. And wherever Gold Coin is the Standard of Value, it is now issued free of Seignorage.

We make these remarks on Seignorage and Brassage because we find that certain writers confound the terms. Seignorage is represented by the difference between nominal and intrinsic value of Coins, and is equivalent to a debasement of money, the profit of which goes to the State. Brassage leaves the Coin at its full intrinsic value, as to weight and quality, but falls on the Bullion. Seignorage, in the sense we have defined it, is an odious and objectionable tax, leading to confusion of value, and is ad-

missible only in regard to subsidiary money. Brassage is a generally recognised and proper remuneration for the service and the right of Coining: but it is objected to by the majority of British Financiers, who consider that, however small it may be, it has some effect analogous to a Seignorage.\*

We may now limit the consideration of the subject to Gold Coin and the question of "Brassage"—for this is the point which we intend here to discuss.

According to the British Mint law no "Brassage" is charged to the importer of Bullion; whilst in France and other countries he is obliged to pay the expenses of Coinage, at a fixed rate established by law.

The British Mint, as can be imagined, makes a large profit on the Subsidiary Coinage, and is consequently supposed to be enabled to undertake the Coining of Gold free of any charge whatsoever. The profit from this Seignorage, considering all the prejudice which is naturally attached to an odious charge of the kind, would hardly suit a State like England as a means of taxation: it seems therefore to have been devised that such profit, as derived from the Subsidiary

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\* The British Sovereign, worth 20s, and passing for 20s, is supposed to be produced under the "Free Coinage" system. The French Napoleon, worth 20 Francs, and passing for 20 Francs, is made from Bullion on which "Brassage" has been paid, and represents this case, whilst the English Shilling, worth at the average price of Silver 11 Pence, but passing for 12 Pence, and the new French Franc worth  $92\frac{1}{2}$  Centimes, and passing for 100 Centimes, represent the cases of "Seignorage," or direct profit to the State.

The word Seignorage is nevertheless so frequently used by others as meaning "Brassage" or "Mintage," that the reader, when in future we give quotations from other writers, must accept it in this sense.

diary Coins, should be applied to the general expenditure of the Mint ; and this general expenditure includes that of the free Coinage of Gold. Applied on this principle, or for the maintenance and rehabilitation of the whole Currency, the Seignorage on the Token Currency can really be justified.

The free Coining of Gold has thus become, and is considered, a special characteristic of the British Monetary System.

It is not quite clear whether the development of the theory of free Coining preceded that of the practice, or *vice versâ* ; but the theory seems to have gained ground very speedily. The Financial authorities in this country adopted it as the " Fundamental principle of the British Currency system," and claim that it is much superior to the systems pursued elsewhere, where a charge for making the Coin is levied. They further insist upon the recognition of this superiority, by statements as to the evident and manifest benefits conferred thereby upon commerce in Great Britain ; in juxta-position to equally visible evils in countries where the same plan is not followed : indeed, the financial literature of Great Britain teems with the laudation of " Free Coinage," and the condemnation of the " Charge for Coining."

We quote here, from a Letter in the " Times" of the 31st July 1868, signed Z. ; wherein the writer opposes a Universal Coinage, and bases a part of his arguments upon the following passage :—

" The principles on which a Coinage issuing from the King's Mint is founded, are thus expressed in the Bullion Report of 1810 :—

' The object is to secure to the people a Standard of a determinate value, by affixing a stamp under the Royal authority to pieces of Gold, which are thus certified to be of a given weight and fineness. Gold, in Bullion, is the Standard to which the Legislature has intended that the Coin should be conformed, and with it should be identified as much as possible ; and if that intention were completely fulfilled, the Coined Gold would bear precisely the same price, in exchange for all commodities, as it would have borne had it continued in the shape of Bullion.' "

This quotation represents the matter in its true aspect ; the proviso—" as much as possible"—modifies the proposition.

But as a fair specimen of the current dogmas developed under the theory, we herewith give extracts from Mr. N. A. Nicholson's recent edition of " Observations on Coinage, and our present Monetary System," (Trübner and Co.) Mr. Nicholson, one of the ablest of our writers on financial matters, makes the following remarks :—

" Standard Coin should be coined at the expense of the whole nation, by its Government ; that is to say, the Mint charges should be provided for out of the general taxation of the country ; for by this means we secure that the Standard Coin circulates as a stamped ingot, at the market value of the metal of which it is composed ; whereas, where it is coined at the expense of bearer, as in France, the coinage expenses add so much to the circulating value of the Coin,—for those who have paid these expenses will not part with their Coin at a loss to themselves ; and the Coins thus circulate above their intrinsic value as stamped ingots of metal."

" Nathaniel Bailey defines Seignorage to be ' a prerogative of the King, whereby he challenges allowance of Gold or Silver brought in the mass to his exchange for Coin."

" M. Chevalier calls the actual expense of making Coin ' Brassage,' when paid by those who bring the metal to the Mints ; he terms any charge made by Government, in addition to Brassage,



‘Seignuriage.’ The author cannot draw any distinction between Brassage and Seignorage, as to their effect on the Coin on which they are charged, provided that all the Coin in the country referred to has been charged in the same way, and that such charges have been always paid at the Mints by those who brought the metal to be coined; for instance, 155 Napoleons, in Gold, are returned at a French Mint to any bearer who brings 1 kilogramme of French Standard Gold to be coined, and is willing to pay the present charge of 6 Francs 70 Centimes. *It is a matter of absolute indifference to the bearer what may be the items composing this charge,—4 Francs might be the Brassage, and 2 Francs 70 Centimes the Seignorage,—he has to pay the charge, and that is what he looks to; and he will take good care not to part with his Napoleons, at a loss to himself; for had he to submit to any loss in disposing of them, he would not continue to get them coined. Small as this charge of 6 Francs 70 Centimes is, every 155 Napoleons coined at present in France are saddled with it, while they circulate as Coin throughout the French Empire, and no longer; in other countries they are but stamped ingots of French Standard Gold.*”

“The author’s view is, that in all cases where *Brassage or Seignorage* are paid by particular individuals, *the Coin is saddled with this Brassage or Seignorage*; and circulates at a proportionately increased value, in consequence of it, throughout the particular country in question. According to the theory of the matter, in countries where a heavy Seignorage is added to Brassage, once an ample supply of currency has been obtained, there will be a strong tendency to fluctuations in its value; because a general depreciation of such a Currency would have to take place, before the exportation of the redundant part of it became possible; a contraction of its amount would then slowly take place, accompanied by a corresponding increase in its value, till it becomes worth while bringing metal to the Mints, and till those who do so feel quite certain that they will be at no loss by the operation. Of course, during the depreciation and subsequent exportation, no Coin would be made at all. *Such fluctuations are avoided by the plan we follow in England.*”\*

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\* The Italics here are ours, for we shall refer again to these sentences.

It is only natural that opinions akin to those contained in the quotations given should make themselves felt before the Royal Commission, which has lately taken evidence on the question of Universal Coinage, &c., and whose report may shortly be issued.

We hear that a number of witnesses declared themselves opposed to a "Brassage," that others agreed to its validity if confined to the actual cost of manufacture, and that third parties suggested a settlement of the difficulty by the imposition of a tax of 1 per cent.—From a lecture lately delivered by a Professor of Financial Science, we even heard the proposal that a "Seignorage" of 1 per cent. might be levied on British Sovereigns, in order to effect the equalisation of this Coin from 25·2215 Francs (its present comparative value) to 25 Francs, thus bringing it into close conformity with the French 20-Francs piece, and clearing the way for a Universal Coinage.

The "Brassage" charged in France (and we may limit our comparison to France as the best type in this instance) amounts to 6·70 Francs for 3,100 Francs, that is to say: according to law, one Kilogramme of Gold, 900 fine (French Standard), is to be coined into 155 Napoleons or 3,100 Francs, and 6·70 Francs is to be charged for the service.

This charge is in reality the contract rate at which the Moneyers of the Paris Mint have undertaken the work, under certain liabilities. The French Government does not in any way profit by the Brassage, which is considered as nothing more than the actual cost incurred in producing the Coin.

The controversy, be it again understood, now rests upon the assumption that the fundamental principle of the British Coinage is the only correct one, that England by having coined and continuing to coin Gold, free of charge, is far in advance of other nations, that the superiority of the system of thus placing Coin on precisely the same footing as Bullion is manifest, and that other countries who do not follow the same example are in the wrong. This is the question of "free Coinage in England" against "Brassage" in France.

We think it can be shown that the Financial Authorities holding these views are labouring under a mistake, that they are basing their pretensions upon a hollow ground, and we are prepared to prove that from the very beginning the so-called "fundamental principle" has been a delusion. The realisation of Bullion into Coin in England is, and has always been accompanied by a charge, which, although the law does not call it a Brassage, is nevertheless tantamount to one. How this tax arises we shall show hereafter, in the meantime, it is evident that if our British system of realising Coin from Bullion is as much liable to a charge as the system of other States, all the fine premises as to the advantages of a free Coinage and the supposed identity between Bullion and Coin fall to the ground.

It is of little consequence what this charge is called, or what the items are of which it is composed, for, in the words of Mr. Nicholson (quoted on page 9), "the bearer has to pay the charge, and that is what he looks to;—the Coinage is saddled with it."

In bringing forward this matter, the writer cannot, and does not, claim to have made a discovery. The subject is a very plain one, and very easy of investigation. It so happens that questions of a financial nature receive different treatment from different men, according to their greater or lesser practical or theoretical acquaintance with them. Our great theoretical writers proceed upon the broadest principle; a rule or a law once established affords to them a point so elevated that they are apt to overlook all minor detail, yet, in the nice adjustment of detail of this kind, the real secret of the matter may be hidden. It is generally supposed that our Bankers and Merchants must be thoroughly acquainted with the subject in all its bearings. We may be allowed to state that the majority of our Bankers, good authorities though they may be in matters of finance and policy, are not thoroughly acquainted with *all* the detail of Bullion business, and *all* must be known to give clearness. Indeed, the large practical dealings in Gold in London are confined to the hands of a very limited number of houses, and these, we imagine, have neither the opportunity nor the wish to throw light upon the theory of the subject. It is necessary, however, that the enquirers into, or the reformers of our National System of Currency, should descend into details and figures before they can come to a clear appreciation.

According to the British Mint law, 40 lbs. Troy of Standard Gold are to be coined into 1,869 Sovereigns, free of charge to the importer. The price of the oz.

of Standard Gold is consequently £3 17s 10½d. Parties may bring Gold to the Mint, and for every 40 lbs. of Standard Gold there will be delivered to them, after a certain time, 1869 Sovereigns—but, and this is the great but—upsetting the apparent ease of the arrangement:—

They must give the Master of the Mint notice of their intention to import Gold, so as to enable him to prepare the Machinery. This may absorb some time, and lead to a preliminary exchange of correspondence. The Mint is accustomed to deal only with the Bank of England, and any application by private parties may possibly disturb the equanimity of the affairs of the Mint.

They must not bring less than £10,000 in Bullion, the Bars must not exceed 200 ozs. in weight, and they must be of Standard fineness or finer, or else a separate charge for Refining will be made.

They must wait twenty days after the Gold is deposited before they receive the Coin. (The Mint may be able at certain times to turn out Gold quicker, at other times, under pressure, and serving in turns, it may take longer.)

The importer may be told perhaps, or he may know, that he can avoid these formalities and delays at the Mint by going to the Bank of England, which, according to law, is bound to purchase Bar Gold at the rate of £3 17s 9d per oz., paying in Bank of England Notes. Such Notes, of course, may be changed into Coin either at the Bank or elsewhere.

The Bank, in fact, in consideration of the  $1\frac{1}{2}$ d which the importer obtains less per oz., is supposed to undertake the trouble of dealing with the Mint, and the loss of Interest arising from the delay. Upon this ground, at least, the proceeding is frequently justified, and considered fair. We admit that it is fair, as long as the Mint chooses to impose these formalities upon the public; would it then be fairer still, if the Mint made further restrictions,—increasing, for instance, the time for delivering Coin, to 50 or 200 days; or enact that at least £100,000 should be brought at once?

With the fairness of the charge we have nothing to do just at present; we only know that it is more profitable to sell Gold to the Bank, at 77s 9d per oz. for immediate payment, than wait at the Mint; for the loss by delay, even at the present low rate of interest of 2 per cent. per annum, would exceed the  $1\frac{1}{2}$ d per oz. lost in the reduced price. Let us remember, however, that we have full liberty to go to the Mint, if we like; the principle of liberty so far is vindicated, but there are many difficulties in the application of the principle. The truth of the matter is, that the formalities and delays at the Mint tend to prevent the public from dealing direct with that Institution; and the public is accordingly compelled to find out that it is better to take 77s 9d per oz. at the Bank, than 77s  $10\frac{1}{2}$ d at the Mint.

The consequence of this arrangement is, that the Bank of England alone can, and accordingly alone does, supply the Mint with Gold, and, by reason of its Note issue, at an advantage over all other importers.

The Mint has thus become an Institution practically closed against the general public; and it is not, as it ought to be, a "free Mint." We are of the opinion that the machinery of the Mint ought always to be ready to coin; any reasonable amount of Gold suitable for coining ought always at once to be accepted; and the Coin should, in ordinary times, be turned out in seven days. If this were done,—and certain foreign Mints are doing so,—the charge of  $1\frac{1}{2}$ d per oz., now made by the Bank, would be equivalent to  $8\frac{1}{2}$  per cent. per annum. But this involves the question of a reform in the British Mint which does not concern us now; suffice to say, that the importer cannot realise his Gold Bullion on better terms than 77s 9d per oz. Standard.

When there is a demand for export, he may obtain more in the open market; but we are here discussing the reverse position, viz., that when the Exchange permits the importation of Gold; when the supply of Gold is supposed to become part of the Currency through the machinery of the Issue Department of the Bank, and the Bank's arrangements with the Mint.

The price of 77s 9d must therefore be taken as that at which Gold may at any time be sold; and it may thus be called the "official" price at which its conversion into Currency takes place.

Calculating, for the sake of accuracy, at per mille, we find that the charge of  $1\frac{1}{2}$ d upon 77s  $10\frac{1}{2}$ d is equal to 1.605 per mille.

The Brassage in France is Fr. 6.70 per Fr. 3100

—equal to 2·161 per mille; but the Mint in Paris, instead of paying Cash for Gold delivered, takes time to make the Coin. At ordinary times the term of the Mint certificate is 7 days. For the interest thus lost by the importer we shall presently account.

Another point now claims our attention. British Assays for Gold are quoted to  $\frac{1}{8}$ th of a carat grain fine. Taking 24 carats (Standard) at 4 grains, we thus have 768 parts. If the Assay does not turn out the full 768 parts, it is reckoned at 767—thus 767·999 is reported as B 1·3 $\frac{7}{8}$  or 23 carats 3 $\frac{7}{8}$  grain. Nearly a whole  $\frac{1}{768}$ th part of a Bar of Gold is therefore lost. On the average, the loss thus made may be taken as  $\frac{1}{2}$  of  $\frac{1}{768}$  (practically it is a little more), so that  $\frac{1}{1536}$ th part must be deducted from the value of Bar Gold thus sold. This fraction is equal to 0·651 per mille.

In France, Assays are reported to  $\frac{1}{10,000}$ th part fine,\* but they must fully realise this fraction. The  $\frac{1}{10,000}$ th part, or near thereto, may therefore be lost, so that the average of  $\frac{1}{2}$  is equal to 0·050 per mille.

The seller of Gold Bars to the Bank of England will further find that all the Bars which he brings must first be re-melted. It does not matter from whence the Gold comes—whether it bears the stamp of the Foreign Mints, or that of the best Australian and Californian melters—the Bank of England, in order to

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\* English Assayers are able to assay as well as the French, and they are in the habit of stating the  $\frac{1}{10,000}$ th fraction with the English Report. Payment, however, takes place according to the English Method.



guard against fraud, does not accept these Bars unless they are first re-melted, by the parties specially authorised to do so, into the so-called Bank of England shapes, of a weight not exceeding 200 ozs., to suit the convenience of the Mint.

The melting costs  $\frac{1}{4}$ d per oz., and this is equivalent to 0·245 per mille on the oz. of Fine Gold.

The French Mint does not insist on the re-melting of Bars, provided that the Moneyers are satisfied as to the stamp and character of the melter.\* It is only in extraordinary cases, when Bars appear in a strange form, that they require the re-melting; and the charge is then 75 Centimes per kilogramme, or 0·218 per mille on Gold 1000 Fine.

The average of practical actual transactions would show, however, that this Charge of Melting in France is counterbalanced by other advantages. The French Mint takes Bars of any reasonable size, whilst the Bank of England insists upon Bars not exceeding 200 ozs. weight, and the cost of the Assays in the latter case is consequently much increased. The slight but inevitable loss on Melting must also be taken into account. But, as we are anxious to avoid the imputation of forcing the case against the Bank of England, we shall, on a subsequent page, on adding the items together, show the French charges, without and with this item for Melting.

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\* The Bars of the Bank of England are taken in France without re-melting, but the Bars of the Bank of France, or the French Mint, must be re-melted for the Bank of England.

The Bank of England further requires, that every Bar brought should be Assayed by “treble” Assay.—The charge is 4s 6d per Bar. Taking Fine Bars at 200 ozs., the 4s 6d constitutes an expense 0·265 per mille.

In France the Assay given to the Mint\* is a single one, and costs Fr. 1·65—which is equivalent, on the same weight of Gold as in a Bank of England Bar, to 0·078 per mille.

Again, in England it is not the practice of the Bullion trade to weigh Gold closer than 12 Troy grains. The Bar must weigh the full  $\frac{1}{2}$  dwt., or the fraction is lost. The average amounts, to 6 grains Troy of Fine Gold, to  $12\frac{3}{4}$ d—or upon a Bar of 200 ozs., equal to 0·062 per mille.†

In France Bullion is weighed to the 10th part of a gramme,—an error of 0·008 per mille is therefore the average on the same weight.

The Bank of England, however, pays cash, *i. e.*—Bank Notes for Gold upon its delivery; whilst the French Mint takes a certain time in making the Coin. The French Mint is bound to coin 50,000 Napoleons a day, equal to 15 millions of pieces per annum at 300 working days. Now, if at any time the demand for

\* Both the British and the French Mints check the Assays at their own cost.

† The Bank of England, on sending Gold to the Mint, enjoys the benefit of the differences in Assay and weight—in addition to the  $1\frac{1}{2}$ d per oz.

new Coin exceeds 50,000 pieces per day,—that is, if a much larger amount of Bullion be presented at once—the French Mint would have to serve customers in turn, and the delay would be extended considerably. This did actually occur shortly after the accession of Napoleon III.; and, for several weeks, 30 or 60 days were thus required. An enquiry into the causes of this delay will show, however, that they were quite exceptional, and that they are now too far removed to be of importance in the question. The new Regime in France commenced at once with a new Monetary Policy. Gold Coin was comparatively scarce; but the Government resolved to make Gold Coin more abundant, and acted accordingly. The Bank of France was weak, and its Note issue did not command the respect it does now. The supplies of Gold from California were large, and Australia soon doubled the ratio of the sudden increase. The demand for Silver for English account, to India, was at the same time so excessive, that this Medium of Exchange, hitherto the most important in France, began to disappear rapidly, and required replacing. The Mint of France, therefore, had a double duty to perform; not only that of utilising the new supplies of Gold, but that of replacing the disappearing Silver Currency; and these problems together were tantamount to more than an entire re-coinage. Nevertheless, so strong was the tendency of the Exchanges in favor of France, that the importation of Gold “paid” in spite of the delay.

All this is now changed. France has now an abundance of Gold Coin; for, since 1850, more than

200 millions Sterling have been coined. The Bank of France is the strongest Institution of the kind in the world; for it holds more Gold Bullion, at this moment, than all the State Banks in Europe, including the Bank of England: and its Note Issue, almost entirely represented by Bullion in its vaults, commands entire confidence. The French Mint is now enabled to satisfy all demands, and more if necessary; and should—which however is very unlikely—a similar pressure for coinage again occur, the Bank of France would be well able to deal with the surplus of imported Bullion, with Bank Notes, on the same general principle as the Bank of England.\*

We think, therefore, that if we place the question of Interest, upon the supposed ordinary delay of seven days, at 3 per cent., we make a fair moderate estimate. The Interest now ruling in France is  $2\frac{1}{2}$  per cent. at the Bank, and from 1 to 2 per cent. in the market; but even when it is higher, the Mint certificates are the best security to French Bankers, and would consequently bear the lowest rate of Interest.

To this reckoning we may succeed in bringing the parties who have hitherto made so much of the supposed delay at the French Mint: we may strengthen our case further by mentioning that at the present moment the Bank of France, like the Bank of England;

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\* The British Mint, under similar pressure for Coin, would take quite as much time as the French Mint. The function of the Bank of England—the Note Issue against Bullion, upon which we look as the safety valve in regard to such pressure, is now also undertaken by the Bank of France, so that in this respect both Monetary Systems are on the same footing.

buys Gold for cash, merely deducting the Frs. 6·70 per kilogramme for Coining; and that this Institution frequently contracts for deliveries of Gold against immediate payment, so that upon the footing on which the matter stands at this time, it would be more frequently unnecessary to deduct Interest for Mintage delay in France.

We have given these figures, in regard to Melting, Assaying, &c., as the results of the official regulations in both countries; for we confine our attention to these official charges, without reference to actual practical results.\* The practical results are little different from those here given, excepting little diversities in Assays, which work in both directions. The Charges of Forwarding, Insurance, &c. are also matters for separate consideration; they are of importance in the balancing of the Exchanges, but have no reference to the questions of Coining.

The calculations so far made have reference to Fine Gold only. Most of the Gold now going into the Bank is the produce of the London Refineries, and as we desire to adhere as much as possible to practical items, we take fine Gold as a basis. It might have been more in accordance with the principle of Coinage if we had taken Standard Gold as the value upon

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\* A superficial enquirer might here object to our giving details of melting, &c., as being matters that only concern the Bullion dealer. We do not write for the Bullion dealer, and purposely abstain from entering into actual transactions on paper, in order to avoid the charge of wishing to instruct a trade. The items given form part and parcel of the "Theory" of the subject.

which to calculate, and if we had done so the differences in Assay, cost of Assay, and turn of scale would have been greater. But, as we mentioned before, we have no wish to force the case against the English system.

Resuming now the items enumerated, we arrive at the following

### RESULT.

#### CHARGES IN ENGLAND.

	Per Mille.
1½d per oz. ... ..	1·605
Difference in Assay ...	0·651
Cost of Melting ...	0·245
„ Assay ...	0·265
Turn of Scale ...	0·062
	<hr/>
	<b>2·828</b>
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If these items are calculated on Standard Gold they will be found to amount to 2·936 per mille.

The English charges, as long as the present regulations are in force, remain, invariably at a total of **2·828** per mille.

#### CHARGES IN FRANCE.

	Per Mille.
Brassage ... ..	2·161
Difference in Assay ...	0·050
Cost of Melting ...	0·218
„ Assay ...	0·077
Turn of Scale ...	0·008
	<hr/>
	<b>2·514</b>
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If Interest be added to this, 3 per cent. per annum for seven days 0·577

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**3·091**

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And when Cash is paid for Bullion, making the charge for Interest unnecessary, and the charge for Melting be deducted (*see* page 17) the total in France is **2·296** per mille.

This statement shows that actually, at the present time, the Charges in France *including that of Brassage*, are less than the charges in England *without Brassage*.

But, ignoring this, or using this circumstance as a set-off against the possible variation and previous contingencies in France, we are still on the right side if we put the matter in a milder form by saying—

That the total Charge in England, under the supposed system of *free Coinage*, is about equal to the total in France *with* the Seignorage or Mintage included.

The enquirer, in applying at the proper quarters, can easily verify the figures here given, and subject them to the rules of arithmetic in any other form, for comparison with the results at which we have arrived.

We claim to have demonstrated that although the fundamental principle of the British Coinage system does not admit of a charge directly designated as a Brassage, yet that the charge made is quite equal to such a tax, and has always been thus borne by the Bullion importer.

Mr. Nicholson's doctrine—"that in all cases where a Brassage or Seignorage is paid the Coin is saddled with this charge, &c., that there will be a strong tendency to fluctuation in its value," &c., ending with the sentence: "Such fluctuations are avoided by the plan we follow in England"—together with the whole fabric of theory built by other advocates of free Coining in England, rest upon a foundation which has not, and never had, a practical existence.

The use to which the writer's statement may be applied will be clear to all the parties who have recently taken an active part in the consideration of the

question of Brassage. It cannot be alleged that "free Coinage" has ever existed in this country; we have proved that Bullion is as much subject to a tax here as it is elsewhere. In the face of these facts, it is useless to defend the system as one of sound principle; it is all the more futile to propose, as certain parties have done, a Seignorage amounting to 1 per cent., or 10 per mille.

Before a settlement of the question can take place it is necessary that the present ground should be cleared of this contradictory matter, and that it should be reduced to a mathematically correct level. The situation imperatively demands reform, and this country should not lag behind other nations, in the full practical application of the present advanced state of chemical science and mechanical skill connected with the business of Coining.

The Assay system, as now in vogue, should be altered. English Assayers are able, as well as the French, to ascertain the quality of the Precious Metals exact to  $\frac{1}{10,000}$ th part; and the method of paying for the value of Gold, in fractions of  $\frac{1}{8}$ th carat grain, or  $\frac{1}{768}$ th part cannot now be defended as being fair and right. Just weight should be paid for; our scale makers can produce instruments which will weigh as correctly as foreign scales. An endeavour should be made to convert the British Mint, now practically closed against the public, into an open and a "free" Mint. The obstacles which are now thrown in the way should be removed. If the Bank of England were in reality a pure State Institution, the monopoly which it exercises in regard



to the Mint might possibly be justified on the grounds of public policy ; but the Bank is a private Institution, and exercises all the privileges of this character, barely acknowledging that in the Issue department it performs public services.

In order to show the character of the combination between the Bank and the Mint (generally supposed to turn upon the question of  $1\frac{1}{2}$ d per oz. on Gold), it is worth while mentioning that the fractions of assay and weight, which by arbitrary custom are taken from the public, are extra profits which the Bank makes on sending Gold to the Bank ; for the Mint, it appears, assays and weighs much closer than the Bank. We do not know the precise terms upon which the weighing and assaying at the Mint are conducted, it is possible that a private experiment in having Gold coined at the Mint will show the method, or that the heads of the proper departments of Government are acquainted with it. We contend, however, that such a matter as this should have been made public at once, that pains should have been taken to inform the Nation of the precise terms on which its Coin is made, and that it should not be left to special enquirers to "take the trouble and find it out." It has been the policy of France to bring all these matters home to the plainest understanding, by clearly defined and published laws.

In order to make the British Mint a really free Mint, other matters, which now, either by design or by accident, prevent the public from dealing with it, require reform. The building should not be so far

away from the business quarters as it is now. If it cannot be removed from its present site, a branch or a reception office of the establishment in the City, would be sufficient to enable it to deal with the public. Such Branch ought to be furnished with arrangements for Melting and Assaying ;—a comparatively small house would suit the purpose. The Machinery should always be ready to work ; Bullion should be received every day, and to any reasonable amount ; and the Coin should be turned out in a few days. The French or American systems may be taken as intelligent examples ; and, avoiding the faults found in them, the British Mint might be made the most perfect in the world.

In a country where a Currency is once established, the function of the Mint, *prima facie*, is that of maintaining it in the proper state, and the regular work of the establishment may be fairly estimated. The working machinery requires but a moderate extension in order to enable it to deal with any sudden demand for Coin, brought about by trade or by new discoveries of Gold Fields ; and, in such cases, the Bank Note issue, so well understood and so well regulated now-a-days, affords a reservoir from which such demands may be satisfied, and into which sudden increases in Bullion may be absorbed in the first instance.

The British Mint now coins periodically under the arrangement with the Bank, and then puts forth all the power of its vast Machinery to do the work speedily.

A large establishment is consequently necessary, and an enormous annual expenditure takes place. A smaller and more compact Mint, furnished with the best machines, more frequently at work, would be able to do much more than satisfy ordinary requirements.\*

If the financial authorities in England were willing to recognise the validity of these principles, the present conglomerated "Charges" might then be converted into an actual "Mintage," and the whole proceeding made clear. The additional profit derived from this source might be utilised, in order to bear a share in the redemption of light Coin, which now falls entirely on the public.

The whole subject of the British Mint should be dealt with upon the ground of public convenience, and as a National Institution, it is necessary that the Mint should be a "Free Mint." The British Mint is not a "Free" Mint,—although it claims to be so,—but the practice contradicts the theory.

We admit that, whilst under such improvements it would hardly be necessary to disturb the present arrangements in force at the Bank of England, yet that the monopoly of that Institution would be thereby affected. The Bank is now supposed to exercise control

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\* Should a Re-coinage be required in England, the present and the new Mint might work together in order to effect the conversion. There might also be no objection to employ private Mints, who, under strict control as to the quality, would furnish assistance. We suggest these methods because other parties, when talking of a Re-coinage, maintain that it cannot be done without a One-Pound Note issue temporarily taking place.

over the amount of solid Currency required, according to its own judgment; and its reserve in Bullion is supposed to represent the mass of available money not wanted in the shape of Coin. We acknowledge that the Note Issue, based upon this theory, is sound; and that the policy of the control looks fair. But we do not think that the judgment of the Bank of England, as to the amount of Metal Currency required, should be final, as the interests of the Institution must be in favor of the Note. It would be wise, in our opinion, to provide some channel by which the public itself might exercise an independent influence on the supply of coined money. This can be done by opening the Mint, as suggested; and the balance between the "Brassage and delay at the Mint" might be so pointed that at certain times it may be better to sell Gold to the Bank, at the present rate of 77s 9d,\* and that at other times it would be more profitable to go to the Mint. In the former case we presume the rate of Interest to be high, and that just when Gold is wanted for the large requirements of trade, it will accordingly find its way to the Bank; in the latter case, the prospect that a greater diffusion will take place, lies near at hand. The Mint certificates themselves, if such were issued, would furnish a current investment.

The writer is of the opinion that a Brassage, covering the actual manufacturing expenses of coining,

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\* The Bank would also, as heretofore, continue to sell Gold at 77s 10½d per oz.

is a proper charge, and justifiable on the ground of general policy.

The proposition that Gold Bullion should be quite equal in value to Gold Coin, may or may not have a special merit, although we have shown that its supposed beneficial effects in England could not have been made manifest, for the cause never existed.

But supposing that the realisation of the proposition be really of importance, it is surely necessary that there should be a possibility of carrying out such realisation with the mathematical correctness which the idea implies. Here, however, the theory at once clashes with the practice; and the very law which seemingly established the system, is forced also to provide for its non-realisation.

The Mint is not able to produce Coin of precisely the same value as it is demanded. The Coin differs in weight and in quality from the Standards; for with the most careful manipulation, it is impossible always to produce precisely the same fineness in the metal, or the exact equal weight of the pieces. It is necessary, therefore, to allow to the Mint the so-called "Remedies"—*i. e.* a Remedy for weight of 12 grains per lb. Troy, and a Remedy for fineness of  $\frac{1}{16}$ th carat grain—equivalent to  $\frac{1}{480}$  and  $\frac{1}{352}$  parts respectively—equal to 4.92 per mille. We acknowledge that the British Mint does not make use of the full extent of these Remedies, and that, in regard to weight, the 1000 Sovereigns are generally correct; but the fineness is, to some extent, inferior. At all events, the mathematical correctness is disturbed.

The Charge in France is 2·161 per mille; the Remedies are 2 per mille for both weight and quality (they are about to be reduced to 1 per mille); but here arises an important distinction,—for the Moneyers at the Paris Mint are debited or credited with the differences arising from the use of the Remedies; so that we may look upon these as being included in the charge for Brassage. The British Mint is not responsible for the use made of the legal Remedy—(the Crown, however, has discretionary powers in regard to the proper performance of the duties of the Mint Master); and the discrepancies, small as they are practically, are lost. Compared with the Brassage in France—amounting to 2·161 per mille—the Remedies in the English Gold coinage alone amount to 4·910 per mille, or more than double.\*

It being thus impossible for the practice to satisfy the theory, why is the theory maintained?

The modified proposition,—that Coin should be conformed with, and should be identified *as much* as possible with Bullion (see page 8)—has only a relative, but not an absolute bearing.

Granted, however, that Coin could be made so as to be, when turned out fresh by the Mint, of precisely the same value as Bullion; that the “intrinsic” values of both—for such is the meaning of the theory—should be alike to a one-millionth part; and that the Mint

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\* Light Gold Coin, professedly coined at the quality worth 77s 10½d per oz., is bought in by the Bank, for the Mint, at 77s 6½d per oz. The deduction of 4d is equal to 4·280 per mille.

should be obliged to furnish Coin for Bullion, free of charge (in the absolutely free of charge, a delay, or loss of Interest should not be counted in—because Interest is of itself a charge); what would be the consequences? It is evident that every importer of Bullion would at once take such Coin in exchange; not so much for home circulation, but for the purposes of Export. The Coins, although Foreign abroad, still bear the impress of authority; but even without this, they are in a convenient form, and on account of their fixed Alloy, would answer much better for the melting pot, and for Foreign re-coinage, than Bars of Gold. The consequence of such an arrangement would be, to make the British Mint—at the expense of the Nation—the factory for furnishing carefully and artistically made pieces of Bullion to all the world; which, abroad, would at once be destroyed, and made into other Coin. We need not dwell upon the absurdity of this supposition; yet it would be the inevitable consequence, if Coin could be made of *precisely* the same value as Bullion, free of charge.

We contend that even now, falsified as the theory is by the practice, the Gold Coin of Great Britain is exported at a loss to the community. The East, Egypt, Portugal, the Brazils, and other Foreign Countries, use British Sovereigns, because they can get them cheaper, and their own Mints cease to coin Gold. The British influence is strong enough abroad not to require upholding at the expense of the British Mint, and at the expense of the British Merchant, to whom this Coin is returned when worn “light” in the

hands of Foreign Nations. The theory of a free Coinage thus involves a defect in good policy.

A Brassage is justifiable upon this ground of National economy,—each State makes its own Coin, intended *primâ facie* for local circulation; the charge of Brassage is a bar against undue exportation of such Coin, and throws the demand for export first, at all events, upon the surplus of uncoined money,—Bullion.

The charge for Brassage on Gold Coin should be limited to the mere cost of manufacture, equivalent or even less than the price at which any private Mint would be willing to contract for the work. The general administration of the Mint, in its character as a Government Institution, should otherwise be defrayed out of the taxation of the country. We have mentioned that certain proposals have been made, recommending a Seignorage of 1 per cent. on British Gold Coin. What do the parties making these proposals mean? Do they acknowledge that the mere “manufacturing cost” need not exceed  $\frac{1}{4}$  per cent., and do they mean to levy the remaining  $\frac{3}{4}$  per cent. as a “Seignorage”? A moment’s reflection will show that a Seignorage of this kind cannot be maintained on the Standard of Value. Gold is accepted as the substance of intrinsic value, by which we measure the prices of all commodities; and if everybody were provided with facilities for weighing and assaying Gold, and verifying its value without trouble, we might deal in Bars, Pieces, Lumps, or Grains of this Metal, without requiring Coin. But the vast majority of



men are, as a matter of course, totally ignorant of these technicalities, and for their protection, as well as for general public convenience, it becomes necessary that parties in whom the highest trust can be placed should issue pieces of metal—Coin—duly stamped and verified as to quality and weight. In most countries it is the State which undertakes this trust.

The State in England issues pieces of metal, called Sovereigns, of a certain fineness and weight, and claims the sole right of doing so. The possessor of such pieces of Coin knows that he holds a certain quantity of Gold Bullion, and this, according to the laws of the English Monetary System, is all that he cares for. Now, if third parties were to manufacture pieces of Coin of precisely the same quality and weight as the Sovereign, the possessor of such privately-made Coins would hold the same amount of Gold, and on the basis of Bullion Value he would suffer no wrong whatever. And if such parties imitated the stamp of the Sovereign, the Bullion Value would still remain the same. The only party, in fact, having reason to complain, would be the Government; the Government is supposed to be the neutral arbiter between litigants, but in this case the principle of litigation would not arise. By issuing such Coin, good in every other respect, save the actual Mintage by the State, the private Coiner would only “poach,” so to speak, on the preserves of the State.

The law very properly forbids such private issue, and any person undertaking it would violate the law. The Government, as a set-off against the sole right of

Coining, should avoid holding out inducements to break the law. The inducement would be held out, if a "Seignorage," beyond the actual cost of "Mintage," as proposed by the advocates of 1 per cent., were levied on the Standard of Value.

Our Silver Coinage bears a Seignorage of 8 per cent.—our Copper Coinage a much heavier charge. A private Mint might make Florins, Shillings, and Pence, costing the price of metals and manufacture, and leaving then a large profit. Fortunately, however, our lower Coinage forms but a small portion of the Currency; it is "limited" in its use, kept under easier local control, and not subject to exportation. Large operations in Coining such pieces would, therefore, be impracticable; and the profit of the private counterfeiter would not weigh against the risk of the penalty for breaking the law.

With Gold Coin, however, the case is different. If of equal fineness and weight to the legal Sovereign, it is but necessary that the dies should be perfectly imitated (and that, in the present advanced state of the engraver's art, is not impossible) in order to furnish a Sovereign which even the officers of the Mint would scarcely be able to distinguish from their own make. Under such conditions, any quantity of Gold Coin could be passed at home, as well as abroad. And if the Government makes a clear profit, beyond the cost of Minting, on these coins, it is evident that the private coiner would also make such a profit.

No such margin of profit should be left for private

Mints, whether legal or not. And if, under this conception, the charge for "Brassage" were put so low as to represent nothing else but the actual cost of the process, conducted with the best possible machinery, illegal competition would be altogether out of the question. A Brassage of this kind could not be assailed, and would be the true recompense for the service of giving legitimacy to Coin.

Each State should make this Charge, and Coin would thus be furnished on equal terms to all. As far as England is concerned, nothing more than a change of name is required, the present "Charges" might be converted into "Charge for Mintage" or "Brassage," without affecting the practice under which the coined Pound Sterling is used as Standard of Value; but an increase of the present charges from 3 per mille to 10 per mille (as proposed by the parties in question) would be a violation of sound principle.

It has also been observed, that a heavy Mint charge has a singular effect upon both Bullion and Coin. In the United States, for instance, the charge is  $\frac{1}{2}$  per cent. (in all about  $\frac{5}{8}$  per cent.) Bars are consequently too cheap as compared to Coin, and being thus subject to exportation before the Exchange arrives at the Cash point, they are found absent when that point is really reached, and Bankers are obliged to send Coin. This accounts for the occasional large arrivals of American Coin in spite of the seemingly protective charge of  $\frac{1}{2}$  per cent.

We have placed the whole case before the reader, in both the practical and the theoretical aspects. Whatever the conclusion may be at which he will arrive, we may at least be allowed to express our opinion :—

That a properly defined Mint law, based upon true and mathematical appreciation, including an economical charge for Brassage, and clear to all understandings

Is to be preferred—

To the present anomaly of the British Gold Coinage System, with the conflict between principle and practice, as we have pointed out, and with all the mystery which surrounds it.

A somewhat weighty consideration is connected with this subject. The scheme of a Universal Coinage must exclude Great Britain, unless she is willing to come to agreement with other Nations upon this and other points. We are aware that a number of Financiers, for general and for special reasons of their own, are opposed to the participation of England in an International Coinage. These opponents must cease to urge "the fundamental principle" of the British Coinage System as an item of their objection to the realisation of the Scheme. There are others, however, who believe that the interest of the country, as well as that of the other Nations, will be greatly benefitted by the introduction of the Universal Coinage. They think that there is some analogy between the theory

on which the London Bankers' Clearing House is established and that of the Universal Coinage. It is possible, in a much wider sense however, that when all Nations use the same identical measure of value, a method of Exchanging value may be inaugurated by which the world at large will derive corresponding advantages.

The most important part in the question of Universal Coinage which remains, is that of the reduction of the Sovereign from 25·2215 Francs, its present fine Gold value as compared to French money, to 25 Francs, at which latter rate it would be brought into better conformity with the French System.

There are certain authorities who maintain that instead of our joining the French System, the French should be made to join ours. If we do join the French System, it would be necessary to effect the reduction of the Sovereign, either forcibly, so to speak, by taxing capital and all the investments and contracts made on the present Sovereign value, or provision must be made placing the old Sovereign at a premium as against the new one, or the State must give compensation.

This subject is one apart from the one on which we have treated, and may be discussed separately.

Since the above remarks were written, the Report of the Royal Commission on International Coinage of 1868 has been issued, in the form of a Parliamentary Blue Book, containing nearly 400 pages of closely printed matter.

The Royal Commission, composed of eminent men, had placed before it the question of International Coinage as connected with certain proposals made by the International Conference which met in Paris in 1867.

The Paris Conference proposed—

- (1). The adoption of the Gold Valuation.
- (2). The adoption of a uniform fineness of Gold Coin at  $\frac{9}{10}$ ths.
- (3). The 5-Franc piece as a basis for division.
- (4). The introduction of a Coin of the value of 25 Francs.

The Royal Commission examined a number of witnesses, all gentlemen either experienced in business or of scientific attainments; and the mass of questions and answers, amounting to 2587 in number, occupy 139 pages. A number of Articles and Letters, written by gentlemen known as authorities in matters of this kind; the Mint laws and regulations of France and other countries; and a variety of documents, all bearing on the question,—are furnished in the Report. As a whole, a more complete compilation on the

subject than is presented by this valuable Report can scarcely be imagined.

But—and this but the Author, after perusing the Report, puts forward with due deliberation—the *Royal Commission has failed to get at the bottom of this question of Seignorage or Brassage.*

It is impossible for us here to enter into a description of the Report; the reader cannot do better than purchase a copy from the Queen's printer. We may mention, however, that in regard to the four points, the proposals of the Paris Conference, namely—

(1). The adoption of the Gold Standard the Commission had no difficulty whatever, inasmuch as the Gold Standard is already the English Standard.

(2). As regards the adoption of Gold Coin 900 fine (instead of 916·66, or 22 carats, the present fineness), the Commission see no objection to this proposal.

Nevertheless—

(3). The Commission is opposed to the 5 Franc piece as a unit.

(4). The Commission is opposed to the introduction of a piece of 25 Francs, representing the new Sovereign, as against the old piece, worth 25·2215.

The rejection of these two last propositions by the Royal Commission implies, for the present, the rejection of the whole scheme.

We cannot but admit that the last question, affecting as it does the existence of old contracts, and involving innumerable claims for compensation, is the chief obstacle in the way of the introduction of Uni-

versal Coinage. The Report gives reasons for the conclusion arrived at: it is not our purpose here to criticise them, and we can only hope that at some future time, the weight of evidence will be turned the other way.

The point with which we have to deal lies between the two first and the two last Proposals,—and it is that of the Seignorage or Brassage—the subject which the writer of these lines has endeavoured to make clear.

The Royal Commission, upon this question, reports as follows :—\*

A further change would be required in the practice of this country in the event of its proposing to take part in the establishment of an International Currency; and that is the imposition of a Mintage or Brassage to cover the cost of producing the Coin.

In England ever since the year 1666, in the reign of Charles II., the expense of manufacturing the Standard Coin has been borne by the State.

According to law in this country, any person taking Standard Gold Bullion to the Mint, is entitled to receive the same weight of Coin, subject only to some delay during the process of coining. Thus a person taking Standard Gold to the Mint would receive Coin, after some delay, at the rate of £3 17s 10½d per oz. for it.

In practice, however, he takes the Bullion to the Bank of England, and sells it for £3 17s 9d per oz. on delivery. He is therefore subject to a charge of 1½d per oz., or *rather less than ⅙th per cent.*, which, practically, is less than the loss of interest to which he would have to submit during the period occupied in the process of coining.

In most other countries a Mintage charge is made, besides the delay during coinage. In France the Mintage charge is 6 Francs 70 Centimes per kilogramme of Standard Gold, or *between ¼th and*

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\* We leave out here, for the sake of shortness two paragraphs referring to the Mint at Sidney and those of the United States and Prussia.



$\frac{1}{8}$ th per cent. ; and the delay, which is variable, has at some times been such as to cause a loss of interest, which might amount to as much as a charge of  $\frac{1}{2}$  or  $\frac{3}{4}$  per cent. more. At present we have reason to believe that the quantity of Gold Coin in the possession of the Bank of France enables them to issue it at once in exchange for Bullion, retaining only the Mint charge of 6 Francs 70 Centimes.

It is no part of our duty to express an opinion on the question of levying a charge for Mintage generally, in favour of which course several very high authorities may be quoted, but it is obvious that if Coins, having currency in several countries, are struck in different Mints, in some of which a heavy charge is made for Coinage, and in others the Coins are struck either at a less charge or free of expense, Bullion will be brought in greater quantities for Coinage to those Mints where there is the least charge (unless the cost of transmission to those Mints should exceed the difference of charge), and a large and unnecessary expense will be thrown upon the countries where such is the case.

There can, however, be no reason why this country should undertake the expense of coining for the circulation of other countries, and it would be necessary, in joining in an arrangement which rendered our Coins current in other countries, that such a Mintage charge should be levied in England as would defray the fair average cost of coining.

It is not necessary to impose a higher charge than this; but it might be a matter of arrangement with other countries that a uniform rate of Mintage should be imposed.

The Commission accordingly seems to state, that if England joins in an arrangement to circulate its Coin abroad, the levy of a proper Mintage charge would be admissible.

But how have they arrived at this result? of what character has been the scrutiny which the matter has undergone?

From the Report we gather that the Commission has found out, that in consequence of the charge of

$1\frac{1}{2}$ d made by the Bank of England, the importer of Bullion is subject to a charge of "rather less than  $\frac{1}{8}$ th per cent.," and that the Mintage charge in France is "between  $\frac{1}{4}$ th and  $\frac{1}{5}$ th per cent.," that at times it might amount "to a charge of  $\frac{1}{2}$  or  $\frac{3}{4}$  per cent. more."

Terms like—Rather less, rather more—between one or the other, are vague, and appear to us unsatisfactory in this instance; they may be suitable in all matters measurable by the rule of thumb, but we submit that they are out of place in an investigation of monetary matters. The whole question of Coinage turns upon minute fractions on large sums, and it is for these very fractions, and the economy which we are supposed to practise therein, that we think our system the best. Nor is the proof wanting that the research into minute fractions has been vigorously prosecuted by the Commission,—the Report is full of calculations of 1000th parts of grains, and other elaborate detail; but, upon this question of the British Charge, the calculations are very loose.

We do not say that in a condensed Report of this kind it is absolutely necessary that the millionth part of a fraction should be stated as the general result of an investigation; but we are entitled to claim that that which is stated in an authoritative voice should be, as near as possible, to the actual fact.

In this we conceive that the Report has failed; for we have shown clearly, in the previous pages, that the charge in England, which according to the Report, is rather less than  $\frac{1}{8}$ th per cent. (or equal to 1.6 per

mille), is in reality nearly  $\frac{1}{3}$  per cent., or 2·828—almost double the amount.

And, in regard to France, we have shown that instead of the charge being between  $\frac{1}{5}$  or  $\frac{1}{4}$  per cent., or 2·000 to 2·500, with an occasional  $\frac{1}{2}$  or  $\frac{3}{4}$  per cent. (5·00 or 7·50 per mille) more, it is in ordinary times but  $\frac{3}{10}$  per cent., or 3·091 per mille; whilst, when the Bank of France pays Cash for Gold, and without the charge for melting, it is but 2·296 per mille.

The statement that  $\frac{1}{2}$  or  $\frac{3}{4}$  per cent. extra may occur by a delay at the French Mint is not untrue; for it did occur many years ago; but now that Institution is able to coin more than £40,000 a day, and any surplus of Bullion can be dealt with by the Notes of the Bank of France, the delay is not likely ever to occur again (see our remarks on pages 18 to 20). It is singular that the Commission should have been so much influenced by the consideration of this unusual delay at the French Mint and have left out of the question a subject much nearer at hand—that of how, and in what manner, and upon what precise terms, Bullion is realised in England. Further than acknowledging the deduction of  $1\frac{1}{2}$ d by the Bank of England, the Commissioners' Report does not proceed; the question of how the Bullion is actually valued, and how the other charges—to which the system binds the importer as by law—arise, does not seem to have been considered.

But, do not these matters form part and parcel of the whole practice of the subject? Do they not form equally important elements—more directly important

than the Interest on delay—in the theory of the Bullion Valuation in England? We think they do; and we think they ought to have been taken into account.

The Royal Commissioners, it must be said, were only bound to deal with the evidence brought before them. An examination of a portion of this evidence will show that the remarks which we have made on page 12 are borne out, and that a preconceived theory obscured a clear result.

Thus, on page 18, question 306, we find the following:—

306. You spoke, I think, about the Mintage; do you see any difficulty arising from the Mintage?—I do. I find that that is a very important subject for consideration, because it involves a very grave question, whether Seignorage should or should not in future be demanded in England. As we now stand, charging nothing for the expense of Coinage, we might be exposed to the great difficulty of having to coin money for those countries who do charge a Seignorage.

The witness uses the term Seignorage as identical with Mintage or Brassage. He proceeds to make elaborate calculations as to the charges of Mintage in the various countries, and comes to the conclusion that England charges 1·605 per mille, and France 10·490 per mille!! He admits that the charge of 1·605 per mille in England arises from the 1½d deducted by the Bank of England from 77s 10½d. This witness, a gentleman well known for his zeal in the cause of Universal Coinage, has devoted a great deal of time and patient attention to the subject. The papers which

he furnishes to the Commission are carefully prepared, and well written ; and these, with his verbal evidence, take up a considerable part of the Blue Book.\*

On page 81 we find another witness stating :

1458. You are aware that in this country we charge no Mintage for coining Gold?—Yes.

1459. Do you not think that it will become necessary for us to alter our practice in that respect, and to charge a Mintage?—I scarcely see how that necessity will arise.

1460. Supposing we did charge a Mintage of 1 per cent., would not that raise the value of the Coin to an equivalent extent?—That would be an entire departure from the policy we have pursued during the last 50 years.

1464. I understood you to say that you thought that if we charged 1 per cent. Mintage that would raise the value of the Coin to the extent of 1 per cent.?—I gave that answer with some qualification. I should have to consider somewhat carefully before I gave a definite answer upon that point. But I should like to say this much, that the discussion of a change of that kind is a very grave and serious matter. It implies an entire departure from what has been the policy of this country, as regards our Mint regulations,

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\* The disposition of this witness (who recommended a Seignorage of 1 per cent. as suitable for England), to force the case of the Mintage charges in other countries to as high a figure as possible, is a very extraordinary feature in his evidence, and is brought out strongly in a subsequent paper handed in to the Commission.—(See page 142 of the Report.) The gentleman, and some others who supported his views, has conceived the theory that a Seignorage of 1 per cent. would settle the question of International Coinage ; for such a charge, if levied on the present Sovereign, would bring the value of that piece from 25·2215 to 25 Francs. He set aside a fraction for manufacturing the Coin of  $\frac{1}{16}$ th, and proposed to levy the remaining  $\frac{5}{16}$ th per cent. as Seignorage. The distinction between mere Brassage and Seignorage, as we have explained it at the beginning of these pages, may here be borne in mind, in order to show the impracticability of such a proposal. The Commission rejected this extreme suggestion.

for the last 50 years; a policy which has been so successful that all the world are now imitating it.

1465. (*Chairman.*) What do you mean by saying that all the world are imitating our policy in that respect?—I mean that a great many other nations are now adopting our plan of having only a single Standard, and making that Standard Gold, and charging no Mintage upon that Gold. That has been our policy since 1816.

The words—“a policy which has been so successful,” “that all the world are now imitating it,” *i.e.* that “of charging no Mintage since 1816,” is a characteristic illustration of the remarks which we made on page 7.

On page 126 of the Report another important witness states :

2361. Is not it practically the case in England that any person has a legal right to take a certain amount of Gold of a certain fineness to the Mint, and to receive in exchange an equal amount of Coin?—It is so.

2362. That is what we call commonly a free Mint?—Yes.

2363. The Mint is free in England, is it not?—Yes.

2364. The charge that is made by the Bank of England of  $1\frac{1}{2}$ d per ounce is merely to compensate for the delay which any person sending Gold to the Mint would experience in procuring the Coin?—So I have always understood.

2365. That does not interfere with the question then of a free Mint?—No; it is a practical measure to counterbalance the amount of interest which would be lost by any person taking his Gold to the Mint to have it turned into Coin.

2366. Do you think that there is any substantial reason why this country should bear the expense of Minting without making any charge for it?—I think that there is a great deal to be said on both sides.

2367. Would not the advantages, if there are any, apply to this country with regard to its internal trade and not with regard to its export trade?—That is not quite so. The advantage of the present system is shared in at present by foreign countries to a

certain extent. To put it quite fairly, it appears to me that a certain charge even is put upon this country by the present system of coining in this way: that the country being obliged to turn any Gold into Coin, though it is only for a fortnight, that same amount of Gold might be exported and be turned back again into Gold, and this country would have coined it and have lost the expense of the Coinage, practically for no advantages of its own. Our present system does appear to me to give a certain advantage to foreign countries as well as to ourselves.

2368. But at the present time we do coin Gold for other countries than our own; I mean such countries as Brazil, Portugal, and Egypt?—Yes.

2369. Those countries have the advantage of having the Coin which they use coined at our Mint free of charge, do they not?—Certainly.

2370. And all expenditure in the shape of the wear and tear of the Sovereign, and the expense of recoining it, is borne by this country, is it not?—It is borne by the State.

2371. That is an expense which the tax-payer in this country has to bear?—Yes. I do not say that there are not counterbalancing advantages, but to the tax-payer in the first instance it certainly makes a difference.

The account given by this gentleman of the British Mint as a “free Mint,” and the justification of the  $1\frac{1}{2}$ d for the Bank, is worthy of comparison with what we have ventured to state on page 13 of this book; whilst the answers to questions 2367 to 2371 bear out our remarks on page 31 respecting the theory of the system. But, notice this difference,—the witness is under the impression that the theory is practice; whilst we have shown that, on the question of free Mintage, the practice is the reverse of theory.

We might go on quoting other instances of the strong impressions under which the witnesses labored

in regard to the question of free Coinages. The Report gives a number of extracts from the opinions of political economists, whose tone, on the whole, is favorable to a Mintage charge. In almost all of these the theory is accepted that the British Mint system implies a Gold Coinage, free of charge; and even John Stuart Mill—on page 324—says: “This would be true, were it not that the Government of this country, and some others, coin money gratis for any one who furnishes the metal.”

The Report, nevertheless, contains passages of evidence which might have induced the Royal Commission to subject the British system of converting Bullion into Coin to a stricter enquiry, in reference to the point that the  $1\frac{1}{2}$ d per oz. is not the only charge which, in that system, stands in lieu of the Seignorage or Brassage.

On page 12 of the Report, reading questions and answers 223 to 239, a witness does not seem quite decided on the point that the charge of  $1\frac{1}{2}$ d is a mere set-off against loss of Interest, and he introduces the word “inconvenience” into the argument; a hint which might have led to an investigation of the real character of this inconvenience. It would have been found that in the mystery of this inconvenience there was hidden not only the  $1\frac{1}{2}$ d per oz., but also the extra profit made by the Bank on fractions of Assays and Weight, not to speak of the Rules which force the importer to the expenses of Melting and Assaying.

But, in the Appendix to the Report, page 325, the



Master of the Mint, in a Memorandum dated May 5th 1852, states—

That in addition to the charge			
of $1\frac{1}{2}$ d, amounting to ...	£1600	per million	
There is an Assay fraction of	650	„	„
And the turn of the scale ...	70	„	„
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But nothing is said of charges of Melting and Assaying at the Bank. The Master's statement led close to the real issue, but the Commission does not seem to have taken the hint.

In the same portion of the Report, the late Mr. Arbuthnot (whose letters show a great clearness of perception) says:—"But if there were any circumstances whatever tending to create a difference in value between Bullion and Coin, such as a direct Mint charge, a delay in the conversion of Bullion into Coin, arbitrary rules in the practice of the Assayers or in the customs of the Bullion market," &c. We do not know whether Mr. Arbuthnot, in disputing with Sir J. Herschel, was fully aware of the actual facts in connection with the remark above quoted; but the whole correspondence between the two, as given in the Report, shows a mutual misunderstanding, the foundation of which may probably be traced to this source.

We believe that a great deal of the whole controversy rests upon a similar ground, and if the Commission had succeeded in clearing the matter up by practical investigation, the Blue Book need not have contained much more than half the present matter.

If the Commission and some of the witnesses had expended one-half of the severe scrutiny to which they subjected the Mintage system of France to the system at home, the actual state of the case would have been made too patent to require further comment. An enormous amount of time and of laborious painstaking evidence and argument, useless from beginning to end, would have been spared, and the clouds which surround the matter, leading the Commission astray in their final report upon the comparative charges for Mintage in England and France would at once have been removed.

The writer, in thus exposing a weakness in the Report of the Royal Commission, admits that he is a partizan in favour of Universal Coinage; but in speaking of Universal Coinage, he has only made general remarks. Whatever views may be held by others in reference to Universal Coinage, the writer may claim that his method of stating the case of Brassage is not the consequence of dogmatic opinion, but that it is an *exposé* made from actual dry and incontrovertible facts, easily confirmed, and subject to the sway of common arithmetic.

Apart from the question of Universal Coinage, the subject of the conversion of Bullion into Currency is considered as involving a principle of national economy. The doctrine (see the Commissioners' Report) that "to countries where there is the least charge for Coinage, or where it is free of expense, Bullion

will be brought in greater quantities," is accepted as being particularly applicable to England. The Bank of France at this moment holds fifty millions sterling in Gold, whilst the Bank of England does not hold one-half the amount. To what is this owing? We believe it is partly due to the more intelligent appreciation of the subject of Bullion valuation in France, and the cheaper terms upon which the importer can realise his Gold. The above doctrine seems to be verified by this fact; although it is claimed that England makes "no Charge," or "almost no Charge" for Coining, whilst France levies a distinct "Brassage."

The writer finally expresses the hope that the project of England's participation in a scheme of Universal Coinage will not be considered as abandoned in consequence of the adverse decision of the Royal Commission. The Royal Commission concludes its Report to her Majesty by saying:—

The assembling of some general International Conference on the subject seems to have been looked forward to by many members of the Conference at Paris; and we are disposed to think that all the various questions might be best considered, the various interests of different countries discussed, and their conflicting views reconciled by authorised representatives of the different countries meeting in such a Conference.

Before this meeting takes place, the agitation of the whole question, aroused by the Report, may induce many eminent men to direct their clear judgment to the other difficulties in the way; and thus, by throwing "more light" on the matter, smooth the way for the vindication of a grand principle.

## SUPPLEMENTARY REMARKS.

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An investigation of the principles upon which the issues of Gold and Paper Currencies of England and of France are respectively conducted, will show that in the main they are alike, but we contend, that in theory as well as in practice, the French carry out these principles in a manner somewhat superior to ours. This is a bold assertion, likely to shock many a British Financier, who for a lifetime has looked upon the British system as the best, and with whom the saying,—"that in England alone the Coined Pound Sterling is identical with the Pound Sterling in Bullion or Account, that both values may be exchanged at pleasure, and that the Note Issue of the Bank of England is the safest in the world,"—has become a dogma as firm as a rock.

That Gold Bullion is not identical with Sovereigns as far as its realisation into this Coin is concerned, we have sufficiently demonstrated; and if, for argument sake, we allow that the terms of conversion in both countries are alike, we are stating the case somewhat favourably for England. The only essential difference remaining lies between the facts, that in England the

Bank is bound by law to purchase Gold at a fixed price, while the Bank of France is not bound in the same way. But, on the other hand, the British Mint is practically closed to the public, whilst the French Mint works on better terms, and is accessible to all.\* The facilities for obtaining Coin for Bullion we may say are certain and definite at the Bank of England and at the Mint of France,† but uncertain at the Mint of England and at the Bank of France.

It appears to us that Mints, as Institutions managed by the State, ought to be the central points on which the public can depend.

The Bank of England is not a State Institution. The Issue Department, it may be said, is connected with the State, and the Government has found it expedient to confer certain privileges on the Bank. The effect of these privileges is to render the Mint inaccessible to the public, and it is accordingly,—in spite of the theory to the contrary,—effectually closed against all parties but the Bank of England. All reasons respecting convenience and proper issue, which the defenders of this arrangement are likely to bring forward, do not weigh against this simple consideration, that the conflict between theory and practice results in a false position, and we may be allowed to add that, on the ground of a straightforward and open policy, the proceeding appears to us “Un-English.”

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\* The Bank of France, being the largest holder of Bullion in France, is also the chief importer of Bullion into the French Mint.

† The possible delay to be taken into account nevertheless.

The Bank of England is frequently assailed because it is bound to this privilege, and the rigid rule of the purchase price of 77s 9d per oz. for Standard Gold ; the fault does not lie with the Bank itself,—it lies in the whole question of the policy of the Nation.

The fixed price for Gold in England is theoretically with the Mint, but practically it is with the Bank ; in France it is regulated theoretically as well as practically by the Mint, and the Bank of France is a free trader in Gold. It is evident, however, that the Bank of France, as a large dealer in Gold, cannot make extensive profits under this system of free trading, and that at all events it is bound, in competing with the Mint and with other State Banks, for Bullion, to adhere closely to the Rates of Mintage and Exchange. At the French Mint the price of Gold, less Brassage only, is 3437·00 Francs per Kilogramme Fine, and if the Bank of France offers much below that price the seller will go to the Mint, where Coin is made at the rate of 50,000 Napoleons a day, and where he can take his turn. The Bank of France, however, need not, at first, bear the charge of Brassage, and can convert Gold Bars into Currency by means of its Note Issue. A perfectly natural position is therefore created, and reflection as to actual transactions connected with probable supply and probable future contingencies in commerce will show that both factors, the Bank as well as the public, have an equal and a direct influence on the question ; and thus the issue of Coin and Notes becomes perfectly self regulating.

In England we sacrifice these simple results of free trade to the convenience of the Government and the Bank. We debar the public from going to the Mint, and thereby throw the whole responsibility of the Monetary Issue upon a single factor,—the Bank of England; and this factor is encumbered with its own private interests.

Turning now to the reverse transaction, the purchase of Bullion from the Bank against Coin, we find that Gold can be obtained there at 77s 10½d an oz., and as this price is the exact value of English Gold Coin, we have now seemingly arrived at the vindication of the principle that “Gold Bullion is identical with Coin.” We have indeed, for we may say that we shall find here the “vindication” with a vengeance. We have already explained that the Bank of England, on buying Gold at 77s 9d, absorbs certain portions of assay and weight, which, on the average, amount to 0·714 per mille (or £714 per million). The Bank selling at 77s 10½d very fairly again allows these fractions to the purchaser, who consequently obtains more Gold in the Bars in exchange for that which is contained in the Coin. The “identity,” it will be seen, is thus overdone, in consequence of the inaccuracy of our customs, and in defiance of our theory demanding exactness.

Is the policy, thus favouring the exporter at the expense of the friendly importer, a judicious one? The Bank of England is not bound to sell Gold at 77s 10½d, but she adheres to the practice, and the avowed object is, that by selling uncoined Gold at this

rate, the Coinage of the country is protected against exportation. We have already shown that in consequence of the Remedies made use of by the Mint, Coin is always inferior to Bullion. A million of new Sovereigns, fresh from the Mint, do not contain a million in Gold Bullion, and Coin which has already been in circulation, and has become more or less abraded, contains a still smaller proportion of fine metal. The exporter of Bullion is well aware of this fact, and if 10,000 Sovereigns give him but say £9,980 in Bullion, he will prefer £10,000 in Bars, giving him exactly £10,000, and he does not require £10,007, with which the Bank insists upon furnishing him.

The Bank of France is equally bound to protect the Coinage by selling Bullion at an equitable rate. Independent of the intelligent connection supposed to exist between the Government and that Institution, it is clear that the latter has a strong interest of its own in the maintenance of the supply of national Coin, and that it must otherwise comply with the dictates of International Exchanges. The full Mintage value of French Gold Coin is Fs.3,100 per kilo, or Fs.3444.44 per kilo. fine,\* and in selling Gold, the Bank of France can take care to point the price in a manner, which will effectually protect the Coinage, and which at the same time will suit the many delicate phases arising from all contingencies of Politics and Com-

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\* Gold in Paris is frequently dealt in at the so-called Tariff du Commerce (the old Mint Tariff)—namely, Francs 3434.44 for fine Gold, without or with premium per mille.



merce, and the variations in Exchanges consequent thereon.

The Bank of England, however, and with it the British Nation, seems bound to rigid terms, and if, ignoring all other anomalies in our system, we choose to pride ourselves upon the rigidity of our rules, in spite of frequent embarrassments, because they are rigid, and supposed (erroneously we think) to exercise a beneficial influence, we may at least concede that the French system is more in accordance with the principle of balance, and we may be allowed to add that on this ground it seems to us to be more intelligent.

A reference to the respective Note Issues\* of the Bank of England and the Bank of France will show that the Bank of England, at the end of October 1868, held 19 millions Bullion against 33 millions in Notes, issued and in reserve, whilst the Bank of France held 48 millions, and issued 50 millions Notes.

Which of these positions is the strongest in regard to possession of wealth, as well as in regard to the safety of the Note? The practical mind of the British merchant does not require anything more than these figures for an answer. There are persons who will try to explain away the importance of this matter, by far-

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\* The writer does not intend here to refer to the subject of Note Issue by Government, and all the questions connected therewith, so frequently forced upon the public. He is entirely opposed to all issue of Notes whose foundation is not Bullion; and from this point of view, he objects even to the 15,000,000 which the Bank of England issues under Government guarantee, and the similar but smaller loan to the Government in France.

fetched conceptions as to the "token" functions of Gold, and the economy of our superior Banking system; there are others who believe that the position is only temporary. We admit that the Crisis of 1866 has placed England at a disadvantage, but long before that time France was richer in Gold than we are, and the disproportion between us is now so great, that temporary causes will have little effect either way.

One of the causes by which so much Bullion is concentrated in Paris, may be due to the fact that this city is now the centre of the large monetary union of France, Belgium, Italy, and Switzerland, and which is about to be joined by Spain, and other States. This should be a hint to us that we must either take our due rank in joining them, or that we must prepare ourselves for a rivalry with so powerful a Confederation.

There may be other causes which have an influence on the accumulation of Bullion in France, but whatever they may be, let us avoid to pass lightly over these signs of the times. The period is not far distant when an Englishman, waiving all theory and all opposition, would point with pride to the coffers of the Bank of England as the richest in the world, and as the mainstay of the trade of the world. We have no vested right in claiming to be the first nation, for the advance in civilisation and the general improvements in industry made by other communities are matters beyond our control, and will bear their own fruits; it is, however, our duty to look to our own position from all sides, and to amend defects in our system, for, minute as these defects may seem to individuals, they

are of importance in the aggregate. The usual plea, reiterated in so many different forms, authoritatively and otherwise, "that we are doing well as we are," should be made to give way to stringent enquiry, and the beneficial consequences of such enquiry will soon be made apparent.

We may liken our British system to a clock. According to the writer's view the clock goes wrong, and although the loss of time is not perceptible in the single second, and although the clock fairly serves the purposes of the national household, yet it loses time, and time means money; and there is the danger of occasional awkward stoppages. The French clock goes well, and keeps time; it is not unlike our own, but better constructed, and self-regulating. We should do well if we took our clock to pieces to set it right, or made a new one; and if we did so, we should find that British common sense will not fail to make the best of a matter which can be brought under the sway of mathematical and nice appreciation.

The public are deluged from time to time with suggestions on Currency; remedies of all kinds, and of the most conflicting character are offered. The authors of such suggestions start with the usual dogma, but with all the power of logic at their command they fail in the final construction. We believe that a good many of these failures in argument are due to the looseness of the centre from which the lines are struck. The true centre is not the theoretical, but the actual practical foundation upon which the British Coinage System is built.

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Figure 1

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### Discussion

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TABLE I

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OBSERVATIONS  
ON  
COINAGE, AND OUR PRESENT  
MONETARY SYSTEM,

BY  
N. A. NICHOLSON, M.A.,  
TRINITY COLLEGE, OXFORD.

Second Edition,  
REVISED AND ENLARGED.

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“But even money is liable to the same objection as other commodities, for it is not always of equal value, but nevertheless it is more likely to remain firm.”—*Aristotle's Ethics*, Book V. Cap. V.

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# OBSERVATIONS ON COINAGE,

AND OUR

PRESENT MONETARY SYSTEM,

ETC., ETC.

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A STANDARD of value which is subject to no variation does not exist.

Gold and silver have been chosen as standards of value, or measures by which we are to measure the value of all other commodities, not because they do not vary in value, but because they vary less in value than any other commodities do.

The quantity of metal in a piece of gold is found by weighing it by troy weight.

24 grains  $\simeq$  1 dwt.

20 dwts.  $=$  1 oz.

12 ounces  $=$  1 lb. troy.

The quality of the metal contained in the piece is found by a process called assaying, and is reported by British assayers in different grades of quality called carats.

Fine gold, that is gold as pure as it can be obtained, is called 24 carat gold — 22 carat gold, or gold of which  $\frac{1}{12}$  part consists of alloy, is called standard gold.

Grades of quality expressed in carats:—

1 carat . .  $=$  240 grains.

1 carat-grain  $=$  60 grains or  $\frac{1}{4}$  carat.

$\frac{1}{4}$  carat-grain  $=$  15 grains or  $\frac{1}{16}$  carat.

$\frac{1}{8}$  carat-grain  $=$  7 $\frac{1}{2}$  grains or  $\frac{1}{32}$  carat.

Our assayers take no notice of any fractions below  $\frac{1}{8}$  of a carat grain—that is to say, they recognise no grade of quality less than  $\frac{1}{8}$  of a carat grain. The assay reports in England are, therefore, almost always a little below the actual fineness of the metal. French assays are made on the principle of representing fine gold by 1,000 parts, called *Millièmes*. Standard gold is gold containing a tenth part of alloy or 900 parts fine gold. The French assayers report to  $\frac{1}{10000}$  exact, while our assayers go only to  $\frac{1}{8}$  of a carat grain, or  $\frac{1}{768}$  part exact, because 768 is just contained  $7\frac{1}{2}$  times in 5,760 grains, equal to 24 carats, or one pound troy.

Since 1816, gold has been chosen as the standard of value in Great Britain, and much care is taken to secure a proper gold coinage. Any one may bring gold to the Mint to be coined, provided it be not less than £10,000 in value, and that it has been first assayed by the Mint assayer, and obtained his certificate; and the Mint is bound to return in coin to the last grain exactly the weight of standard metal which it has received without any charge being made to the bearer. Since 1837, no private individuals have availed themselves of this privilege, and the Bank of England alone sends gold to the Mint to be coined. The Bank buys gold with its own bank-notes, but will buy none which has not been previously assayed by one of the six assayers employed by itself. It gives £3 17s. 9d. per ounce for all the standard gold brought to it for sale, whatever be the quantity, reserving  $1\frac{1}{2}$ d. on each ounce, £3 17s.  $10\frac{1}{2}$ d. being the exact legal price at the Mint.

What is called the Mint price is merely a declara-



tion of the weight of metal of a fixed purity which the law requires to be in our gold coin ; it ought to be called the Mint division rather than the Mint price. For instance, 40 pounds troy of 22 carat gold are divided into 1,869 stamped ingots of a certain shape, which we call sovereigns ; whatever be the value of the gold, whether it rises or whether it falls, the number of sovereigns into which this particular quantity of standard gold is divided will remain the same, and it makes no difference whether the Royal Mint, which performs the division, is at Sydney or in London. The Bank assayer, when he has assayed the gold, reports to an eighth of a carat grain, leaving out any smaller fractions to the loss of the seller, who gets so much less for his gold from the Bank. The Mint is not bound to return coin for bullion in less than twenty days. The working is divided into journeys ; each journey consists of 15 pounds troy weight (£701) of coined gold, or 60 pounds troy weight of coined silver (£198).

The reason why private individuals do not have gold coined on their own account seems to be that the loss by the delay in the coinage exceeds the loss on selling to the Bank of England.

There is an admixture of one-twelfth of alloy in the English gold coinage ; this proportion is considered to amalgamate better with the gold in cooling than the French proportion of one-tenth, and to produce in consequence a more durable kind of coin. A sovereign contains  $113\frac{1}{6\frac{1}{3}}$  grains of fine gold, it weighs  $133\frac{1}{6}\frac{1}{2}\frac{1}{3}$  grains full weight, but a deficiency of  $\frac{1}{2}$  grain  $\frac{1}{6}\frac{1}{2}\frac{1}{3}$  is tolerated in circulation ; that is, if a sovereign does not weigh  $122\frac{1}{2}$  grains, it is considered light.

A half-sovereign is considered light if it weighs less than  $61\frac{1}{2}$  grains. Light sovereigns will, however, continue some time in circulation through the country, till they are remarked upon as not being of full weight, when they cease to be legal money, and the last holder must get rid of them at a loss to himself. When sovereigns find their way to the different London banks, being deposited by customers, such as railway companies, houses of business, etc., they are sent in bags to the Bank of England, where machinery is provided to weigh each separate sovereign; those of full weight are cast into one box and those that are light into another; the banks who have sent the bags are charged with the loss on these last, and they are at once transferred to other machinery, which cuts them in two. The Bank buys these light sovereigns at £3 17s.  $6\frac{1}{4}$ d. per ounce, but sells them, when they are cut, to tradesmen at the rate of £3 17s.  $9\frac{1}{2}$ d. per ounce, it will not sell a less quantity than £1,000 worth at one transaction. Messrs. W. C. Sillar, of 62, Cornhill, sell any quantity at £3 17s. 9d. per ounce; they are cut with a pair of shears to deface them and prevent their future circulation, but the cut does not divide them into two pieces. Our guiding principle in this matter should be to try to diminish any inducement to pass light gold coin, by lightening, as far as we justly can, the loss which must fall on the last holder; and we therefore think that the Mint ought to be obliged by law to take light gold coin by weight at £3 17s.  $10\frac{1}{4}$ d. per ounce, when brought to it in sufficient quantities, say £1,000 worth at a time. Our gold coin ought to have the best of all guarantees, a stamped declaration from the Mint that

it is 22 carat gold, and the fact of its being light does not interfere with its quality as metal. The French Mints are bound to buy light French gold coin by weight at the tariff rate, 900 fine; that is to say, as French standard gold. The number of sovereigns weighed daily at the Bank of England, by machinery, varies from 60,000 to 70,000; there are ten machines at work, and each is able to test thirty sovereigns per minute. The average yearly loss on the wear and tear of gold coin is considered, in round numbers, to be 1 in 950.

As we use both silver and copper money, though we have chosen gold as our standard of value, we are obliged to put a sufficient quantity of alloy in our silver and copper coin to prevent speculators taking advantage of fluctuations in the relative values of the three metals; for instance, we make a bronze penny do the duty of an intrinsic copper penny, though it is intrinsically worth about a quarter of such a coin, because we have found by experience that if we had an intrinsic copper coinage, speculators would take advantage of any rise in the marketable value of copper as compared with its legal value as coin, when measured in gold or silver money, and melt all they could get of it for sale as metal. Our bronze coin is not a legal tender for more than twelve pence.

Silver coin in Great Britain is not a legal tender above 40s.; silver, of which 222 parts are pure silver and 18 parts alloy, is standard silver, and a pound troy of such silver is coined into 66s.; whereas, if the price of silver be reckoned at 62d. per ounce, and this is above the average price, it ought to be coined into 62s. The 4s. are retained by Government to defray

the expense of the coinage, and to keep it in repair, for Government are bound to give good silver coin in exchange for any which may have sustained injury in circulation, provided that injury has not occasioned the complete defacement of the coin; that is to say, as long as enough of the superscription remains to warrant to what country the coin belongs. The Bank of England notifies to Government when silver coin is wanting, and they employ brokers to buy silver in the open market; it is then coined and sent to the Bank of England, and as it is absorbed in the circulation, Government is gradually repaid by the Bank. If silver was to rise in value much as compared with gold, Government would be compelled to put less silver in its coins than it does now; for if it continued to coin the pound troy of standard silver into 66s., it would pay speculators to melt the silver coin; for instance, if silver rose above 6s. per ounce, there would be a profit to be made by the melting of shillings. The average yearly loss in wear and tear of silver coin is considered, in round numbers, to be 1 in 200. The author is of opinion that bank-notes ought to be issued by the State alone, which should guarantee to the holder of them the performance of the promise to pay standard gold on demand, and find the gold too when so demanded; he therefore considers that the proper definition of a bank-note should be a transferable promise on the part of the British Government to pay to bearer on demand a certain amount of coined gold, circulating side by side with coin in endless succession, liquidating debts like coin, and a legal tender everywhere in the United Kingdom except at certain fixed places where gold can always

be got according to promise when required. If such a system was adopted, British bank-notes would become absolutely money, and people who complain of restriction in the issuing of them, might just as well complain that they have not the power of coining sovereigns themselves. It is a question for the House of Commons to decide whether it is advisable to allow any bank-notes to be issued against securities other than gold coin or bullion, and if the House decide that it is so, then they should determine what the amount of such bank-notes is to be, and this amount should be unalterable without their consent. "The desirableness, on the whole," says Mr. Laing, in his "Theory of Business," "of keeping bank-notes apart from all other kind of credit substitutes for money becomes more and more felt."

The business of a banker should consist in borrowing and lending money already in existence, it is not to create money. M. Clement Juglar, in his work "Du Change," says, page 473, "*Le véritable rôle des banques consiste à faire du comptant en échangeant une promesse de payer à terme contre une autre promesse de payer à vue.*" Yet though this able author calls bank-notes here "*du comptant,*" which they certainly are, at page 91 he says, "*L'erreur de Lord Overstone et de Robert Peel, erreur encore très-répandue aujourd'hui, a été de confondre le comptant avec le crédit,*" when he wishes to prove that they are mistaken in considering bank-notes to be actually money, and to be perfectly distinct from cheques, bills of exchange, or any kind of auxiliary currency. There are two distinct points of difference between bank-notes and auxiliary currency in England; the first is that the

amount of bank-notes which can be now issued, over and above a certain fixed amount, is made by law to depend on the amount of gold coin or bullion which the issuing banks can get hold of; an artificial regulation therefore affects bank-notes, which does not affect cheques, bills of exchange, etc., etc. The second difference is the compulsory character of their circulation, as the "Times" says, even an ordinary tradesman must take the bank-notes which pass current round him.

We have now considered the currency of the United Kingdom as represented by gold, silver, bronze, and bank-note money, and we shall proceed to point out those alterations in our present system which would seem most necessary.

And we begin with the Mint, referring our readers for more ample details to Mr. Ernest Seyd's valuable work on Bullion and the Foreign Exchanges.

The allowance made to the Mint for errors in either weight or fineness of metal is called "the remedy." The remedy for the fineness of gold coin is  $\frac{1}{16}$  carat, or 15 grains, in each 22 carats of standard metal, that is to say, the fifteenth part of 5,280 grains, or  $\frac{1}{352}$ , equal to about 3 per mille.

The remedy for weight allows a variation of 12 grains in the pound troy, or one ounce in every 40 pounds troy—1,869 sovereigns, or exactly one half-penny in each sovereign. Since the author published the first edition of this pamphlet, he received a letter from Mr. Brogden, 16, Henrietta-street, Covent-garden, a jeweller on whom he can depend, to state that the remedy for fineness has the effect of preventing gold plate actually made of sovereigns from passing

as 22 carat gold at Goldsmiths' Hall. Some years ago, the Messrs. Garrard made a christening bowl for the late Duke of Wellington out of sovereigns, but it had to be marked 18 carat gold instead of 22 on account of the remedy.

Now, in the present advanced state of the assayer's art, it seems clear that the Mint ought to be able to manufacture sovereigns which, when melted and made up into gold plate, would pass as 22 carat gold, instead of the present sovereigns to which jewellers must add so much fine gold (six grains) to each ounce, in order to secure that the articles made out of them will pass at Goldsmiths' Hall as 22 carat gold. The remedies therefore ought to be revised and diminished as much as possible.

Secondly, we may well inquire, if, in a country where gold coin is made gratis, as with us, Government ought not to undertake also gratis the melting and re-making of light gold coin, charging the last holder with the lightness only? The French Mints set us a good example in this respect, as they buy light French gold coin by weight as standard gold.

Thirdly, the Pix trial of the purity of our gold coin, described at the 30th page of this pamphlet, ought to take place once every year. The last trial was in 1866; the trial before that in 1861. (Suggested by Mr. Ernest Seyd).

Fourthly, the whole establishment on Tower-hill ought to be rebuilt in a suitable manner—(suggested by Mr. Ernest Seyd)—and this brings us to the principal alteration required in our present monetary system.

We shall begin by some observations on deposits.

Deposits are any public or private moneys entrusted to the care of bankers during business hours. Once a deposit is lodged in any bank, it becomes a debt owed by that bank; but it does not form a part of the circulation, although the actual money deposited does, because the same identical bank-note might be lodged as a distinct deposit by two or three different depositors in the same week. The amount of reserve in coin and bank-notes which banks must hold to meet the average demands of depositors certainly does form a part of the circulation; but this is a widely different thing from the total amount of deposits lodged in the banks. The deposit system enables us to economise the circulation, (that is to say, the amount of currency which we require for carrying on our business), in the remarkable way we do at present, because our bankers need only keep whatever reserve they find sufficient to meet the average demands of their depositors, while it also serves the same purpose to an enormous extent by making transfers from one banking account to another possible. Now, the fact is that we have carried our economy in this respect a little too far; the blot in our system, as revealed by the crisis of 1866, is not that we have too few bank-notes issued against securities other than gold coin or bullion, it was well hit by the "Times" in the following passage:—"The short result is, that in the twenty-one years which have elapsed since 1844, our foreign trade has grown from less than 140 millions to 490 millions, or in the proportion of two to seven. The reserve of bank-notes and coin in the banking department of the Bank of England, which practically represents the amount of unemployed capital in the kingdom, has, on the other



hand, rarely exceeded ten millions, and has generally ranged from seven to nine millions. We have multiplied our trade between three and four times, *and we have kept our cash balance unaltered.* We have been enabled to do so by the development of the Clearing House system, by new facilities of banking and of credit."

The Clearing House seems to be sacred ground. Mr. Ernest Seyd hardly mentions it in his great work, lately published. Mr. Laing confines himself, in his "Theory of Business," to a simple statement of its mysterious practices; yet, though the author does not forget the line, "For fools rush in where angels fear to tread," he will venture to dwell on what its weak point seems to him to be. It is a fact, says Mr. Fowler, in his celebrated essay, that the amount of the reserve in the Bank of England is the result of the management of the bank—*quâ* Bank; and the difficulty of maintaining at all times a due reserve is greatly increased by the well-known fact that the reserve of the Bank is the only large cash reserve in the country. The pressure, therefore, comes on the Bank with intense force when times of trouble arrive, she alone having any considerable store of money. Others may have stock, or bills, or money at call, any amount in the form of claims on other people; but they do not, as a rule, keep much actual money. What money they have is for the most part kept in reserve at the Bank, and it may safely be said, speaking generally, that the reserve of the Bank is the cash reserve of the nation. Whether this arrangement be right or wrong, it is well that all should be alive to the fact that it has far more to do with panics than anything in the Act of 1844."

Mr. Thomson Hankey says, "that the only way to avoid, or at all events to diminish, the evils of financial panics is by prudence on the part of the trading community in retaining a certain part of their property in ready money, and that this certain part must be proportionably large according to the extent of their operations;" and he adds, "that such reserve of ready money cannot be kept by the Bank of England to an extent, or in a manner which will supply the necessity for due reserves by bankers and other traders."

The simple fact is that we go one step too far with our deposit system, and we thereby carry on our trade with an actual cash balance which is quite inadequate to anything but the very fairest weather; we economise ready money too much, and the way we do so is this: we are not satisfied with the simple economy of depositors entrusting their money to our Banks, and these last holding a sufficient reserve in actual money to meet the average demands of their depositors, but our bankers themselves must become in their turn depositors, and entrust the greater part of their reserves to the Bank of England, which, Mr. Hankey says, cannot be made to supply ready money beyond what, under the ordinary good management of a deposit bank it can retain in reserve; that is to say, that, while our present system continues as it is, the Bank of England is a deposit bank, well managed, it is true, but still dealing with enormous banking establishments in London as depositors. All the Clearing bankers have drawing accounts at the Bank of England, and they settle their accounts with each other in the Clearing House by drafts on the Bank.

Now, there may be many objections to the plan the

author proposes, but he should like to see them stated in order to improve upon it. His plan is, that the Clearing House should be made a Government establishment, and that all Clearing bankers, instead of having drawing accounts at the Bank of England, should have drawing accounts at the new Mint; there should be a drawing office here attached to an issuing bank-note establishment. The new Mint would then have the gold, silver, bronze, and bank-note money—in short, the currency of the country all under its care; it would consist of three departments, one for coining, one for issuing bank-notes, and one as a drawing office for Clearing House business. The present Clearing House might remain as it is, but be made a Government establishment. Bankers who wished to enter the Clearing House would then begin by depositing in cash at the drawing office in the Mint whatever sum they considered necessary for the working of their business; they would receive a Government Clearing House cheque-book, containing cheques payable to Clearing bankers only, and be allowed to draw by the cheques in this book on their deposits; they would receive no interest for their money, but the Bank of England gives them none now; there would be no difficulty in keeping these bankers' deposits safely, because the Mint could be especially constructed for this purpose.

Each banker should pay a small annual fee for the privilege of Clearing, and the business would go on exactly as it does at present, except that the Bank of England would then enter the Clearing House like any other bank; and the present system, which forces the Bank of England to hold the working cash reserves

of the Clearing banks, and consequently the principal cash reserve of the whole country, would come to an end. We should then hear no more of duty on the part of the Bank of England to assist the rest of the banking community in times of difficulty, and we should not see the reserve of bank-notes in the banking department continuing for weeks below the bankers' balances at the Bank. There is nothing here advanced against either the deposit system or the clearing system we have at present. The object of the proposed change is to discourage, in their very beginnings, the dangerous speculations from which honest traders suffer so much, by making each bank hold its own reserve, stand on its own merits, and take care of its own solvency. In replying to a communication from the Governor of the Bank, 11th May, 1866, the Government say, "There are some important points in which the present crisis differs from those of 1847 and 1857. Those periods were periods of mercantile distress; but the vital consideration of banking credit does not appear to have been involved in them as it is in the present crisis." Commercial crises, panics, or whatever you may please to call such perturbations, cannot be prevented by any measures, however wisely suggested, any more than storms at sea can; all that can be done is to make the ship seaworthy, and provide her with the means of meeting the bad weather safely. We must always remember that if our currency was purely metallic, it would be no safeguard against panics, because the present deposit system would still continue; transfers from one account to another would be resorted to to a larger extent even than they are now; bankers would then,

as now, hold whatever amount of gold they found necessary to meet the average demands of their customers, and no more, and they could only meet any extraordinary demand by realising securities, which in times of panic must always be done at a loss.

The author has stated, in the "Science of Exchanges," No. 199, Third Edition, that the natural tendency of bullion is to flow towards those markets where the best price can be obtained for it, so that the raising of the rate of interest to a very high point in any country has the double effect of preventing the exportation of the bullion or coin which is in that country, and of attracting bullion or coin to it from other countries. Now in the last crisis the raising the rate of interest did prevent the exportation of the gold coin and bullion in the Bank of England; it did not fall below eleven millions during the worst part of the storm, it ranged from eleven up to over fourteen (4 July, 1866); consequently, the bank-notes of the Bank of England were safe, the most timorous people were only too glad to get hold of them, their convertibility was never doubted.

The author does not agree with M. Clement Juglar, when he states, page 56, "Du Change," "During crises, what people want is metallic money to meet home and especially foreign requirements. All credit has disappeared, and the bank-notes which are then issued do not circulate more easily than bills of exchange, they come back at once to be converted into gold; credit can perform none of its functions, because every new issue of bank-notes returns to the Bank; it is not bank-notes that people want, but coin or bullion." This is not the case in England at

present, though it very soon would be so, if we were to return to our old system of unlimited issues of bank-notes, or to that of free banking on securities, as advocated by Mr. Bonamy Price.

On the other hand, the raising of the rate even to 10 per cent. did not bring gold coin and bullion to England for a considerable time; yet the author does not agree with Mr. Ernest Seyd that this was a breakdown of our cherished system of attracting bullion to our shores by a high rate of interest. We shall always attract bullion to England when we want it, by paying a high price for it, just as we attract the best wine, the best tea, the best of everything there, but those who supply us with wine, tea, etc., must be quite sure that we mean to pay for them, or no price, however high, will tempt them to trust us with their goods.

This was the reason why foreign capitalists would send us no coin or bullion; they did not consider the high rate offered for their money consistent with its safety, nor can we be surprised at this, when we think of the suspension of such companies as Overend and Co., and Peto and Co., and of the general discredit cast upon our banking system. "As regards the banking business of this country," said Mr. Gladstone, "as regards the making of investments, as regards the holding, or I should rather say the non-holding, of reserves—as regards the practice of showing reserves on paper, which reserves themselves have been lodged in investments—as regards the practice of making enormous advances, not upon the well-considered credit of individuals, but on speculations and undertakings of every kind, enormous in extent, and often

wholly unjustifiable in their quality and character, being, in fact, irrecoverable at the proper time, and illegitimate for bankers, even if they were legitimate for other parties—as regards these, and more than these, characteristics of the present system, we have had for some time past a very unsound and unsatisfactory state of things.”

If our monetary system was put on the basis which the author recommends, he believes that foreign capitalists would be always glad to send their money to England when our rate of interest was high, and that although no legislation can prevent commercial panics, we should then be saved from discredit being thrown on our banking system abroad.

As to the issuing establishment to be attached to the new Mint, the author thinks that the new Government bank-notes ought to go as low as one sovereign, and that all bank-notes issued against gold bullion, 22 carats fine, should be issued at the rate of £3 17s. 10½d. per ounce, just as sovereigns are now issued by the Mint in exchange for the same kind of gold at the same rate.

Tokens may be defined to be any denomination of coin, the intrinsic value of which is below the nominal value assigned to it by law, and which is not a legal tender above certain small fixed amounts. On the other hand, standard coins, which form the standard of value in any country, ought to be merely so many stamped ingots of metal of a fixed purity, circulating at the market value of that metal in that country; the stamp on the coin is but the solemn guarantee of the Government that the ingot contains a certain quantity of metal of a fixed purity.

Standard coin should be coined at the expense of the whole nation by its Government, that is to say, the Mint charges should be provided for out of the general taxation of the country, for by this means we secure that the standard coin circulates as a stamped ingot at the market value of the metal of which it is composed, whereas where it is coined at the expense of bearer, as in France, the coinage expenses add so much to the circulating value of the coin, for those who have paid these expenses will not part with their coin at a loss to themselves; and the coins thus circulate above their intrinsic value as stamped ingots of metal. If there be great difficulty and delay in procuring standard coin, as there once was in Australia, before any Mint was established there, it may possess for a time a far higher circulating value as coin than its intrinsic value as ingots of metal would warrant. Tokens should circulate at an intrinsic value sufficiently below their nominal value, whether they be composed of silver or copper, to clear all the expenses of their coinage, but if we used a very large quantity of alloy, we should make it more easy to forge them; and even with our present quantity we must turn our tokens out in a very superior way to protect them from this danger.

We cannot keep gold standard coins and silver standard coins in circulation, side by side, in any one country for any continuance, because the value of the one metal, when measured in the other, is sure to fluctuate; and as all standard coins are but so many stamped ingots of metal, people will always select the metal which costs them least, when they have a payment to make, so that if more can be got



for a given quantity of the one metal in foreign countries than can be got for its equivalent in the other metal, supposing them to be circulating as stamped ingots, side by side, the metal for which the most can be got will be exported, because of the two it is the cheapest mode of payment. For instance, if eleven rupees' worth of goods can be got in England for a sovereign, which is circulating side by side with rupees as ten in British India, the sovereign will be exported, and the rupees will be kept in India. On the other hand, if one sovereign's worth of goods can be got in England for ten rupees, when rupees are circulating at the rate of eleven to one sovereign, side by side with sovereigns in India, the rupees will be exported, and the sovereign will be kept in that country. In any free country, what is worth more abroad than it is at home is certain to be exported, whether it be coin or cotton.

There ought to be one standard of value in any one country, and but one; either one or other of the two metals should be selected as the standard, and the standard coins composed of the one selected should circulate in that country at their intrinsic value as so many stamped ingots of standard metal, no charge being made for their coinage.

Plain as this may seem, we find the principle neglected in the last monetary convention (23rd December, 1865), because, although two-franc, one-franc, fifty centimes, and twenty centimes, silver pieces, have been constituted tokens, the five-franc silver pieces have been left to circulate as standard coins along with the gold standard coin, so that debtors in the countries, bound by the convention,

may select either silver five-franc pieces or gold coins to make their payments, and of course will select the metal which costs them least. Practically speaking, gold has become the standard of value in France, Italy, Switzerland, and Belgium, for the present, because the gold five-franc piece is taking the place of the silver one altogether, and the coinage of silver five-franc pieces will probably soon cease; but a door has been left open, which may be a source of trouble at some future time, and it is not satisfactory to see such enlightened countries as those we have named neglecting principles on which scientific economists seem to be agreed.

Nathaniel Bailey defines seignorage to be "a prerogative of the king, whereby he challenges allowance of gold or silver, brought in the mass to his exchange for coin."

M. Chevalier calls the actual expense of making coin "brassage," when paid by those who bring the metal to the Mints; he terms any charge made by Government, in addition to brassage, "seigneuriage." The author cannot draw any distinction between brassage and seignorage, as to their effect on the coin on which they are charged, provided that all the coin in the country referred to has been charged in the same way, and that such charges have been always paid at the Mints by those who brought the metal to be coined; for instance, 155 napoleons in gold are returned at a French Mint to any bearer who brings one kilogramme of French standard gold to be coined, and is willing to pay the present charge of 6 francs, 70 centimes. It is a matter of absolute indifference to the bearer what may be the items composing this

charge, 4 francs might be the brassage, and 2 francs 70 centimes the seignorage, he has to pay the charge, and that is what he looks to; and he will take good care not to part with his napoleons at a loss to himself, for had he to submit to any loss in disposing of them, he would not continue to get them coined. Small as this charge of 6 francs 70 centimes is, every 155 napoleons coined at present in France are saddled with it, while they circulate as coin throughout the French Empire, and no longer; in other countries they are but stamped ingots of French standard gold.

The author's view is, that in all cases where brassage or seignorage are paid by particular individuals, the coin is saddled with this brassage or seignorage, and circulates at a proportionately increased value in consequence of it throughout the particular country in question. According to the theory of the matter, in countries where a heavy seignorage is added to brassage, once an ample supply of currency has been obtained, there will be a strong tendency to fluctuations in its value, because a general depreciation of such a currency would have to take place before the exportation of the redundant part of it became possible, a contraction of its amount would then slowly take place, accompanied by a corresponding increase in its value, till it becomes worth while bringing metal to the Mints, and till those who do so feel quite certain that they will be at no loss by the operation. Of course, during the depreciation and subsequent exportation no coin would be made at all. Such fluctuations are avoided by the plan we follow in England.

Again, if seignorage were raised to a very high point—for instance, in British India—private firms in other countries would find it to their interest to manufacture the very best standard silver rupees for export to India, in order to gain for themselves the existing difference between the circulating value with the seignorage imposed, and the actual intrinsic value as a stamped standard silver ingot.

We shall now apply some of these principles to the coinage in British India. Silver is the present standard of value there, though sovereigns are admitted into the circulation as ten rupees. The rupee, putting the price of silver in London at  $61\frac{1}{2}$ d., has a circulating value in India of a fraction over 24d., while its intrinsic value is rather less than 23d. at the same price. The various expenses connected with the importation of silver amount to  $3\frac{1}{4}$  per cent., and the seignorage, or present tax levied on the coinage, to  $2\frac{1}{10}$  per cent. The coins delivered by the Indian Mints are of their proper intrinsic value, as prescribed by law, but the seignorage is subtracted from the number of coins returned to those who brought the metal to be coined. The question we have, then, to consider is, can we turn the rupee out of its present position as the standard of value in British India by raising the seignorage at present levied on its coinage? To suppose that we can do so, is, in our opinion, to ignore the principal difference between standard coin and tokens, or subsidiary currency, because the very essence of such tokens is that they should be a legal tender for small amounts only, and be principally used to make up sums of money, where payment in standard coin cannot be managed.

This subject requires much consideration, because Colonel T. J. Smith, in a very carefully and accurately written book (*Remarks on a Gold Currency for India*, Messrs. Layton, Fleet-street), recommends that the present seignorage should be raised instead of being altogether abolished, as we think it ought to be. He says, p. 47, sec. 11, "That three or even four per cent. additional seignorage on the coinage of silver, making five or six per cent. in all (gold being received at £3 17s. 10½d. per ounce), would not be excessive."

Now, in the case of tokens, we give the coin a value by law which it does not intrinsically possess as metal, and in the case of a heavy seignorage, we do the same; but there is an important difference, which we think Colonel Smith has not given sufficient weight to, and it is that tokens are legal tender for small amounts only, while in this case the silver coin carrying the seignorage is still to continue as legal tender for any amount, and would be likely to remain the standard of value in British India, because the standard silver coins in that country already amount to about two thousand millions of pieces. Colonel Smith can undoubtedly prevent the exportation of silver in the shape of coin from India by a heavy seignorage, but this might, and probably would, occasion much inconvenience and loss to the trade of the country.

If such a system was followed out, no silver in the shape of coin would ever be exported from India, except at a serious loss, and it would still be occasionally imported, though in smaller quantities, as being the old selected Indian standard of value, while gold, in the shape of sovereigns, on which no seignorage

is to be charged, would be exported, because this could be done without loss.

We think that Colonel Smith is mistaken in his views on seignorage, though many of his suggestions are excellent. The measures which we should like to see carried out at present with regard to the currency in British India are the following:—

1. That Government, as Colonel Smith suggests, should employ the Indian Mints to manufacture a proper silver token currency, from a quarter rupee downwards, such tokens to be issued and maintained at the expense of Government. This would give the Mints quite enough to do for a long time.

2. To do away with seignorage and Mint charges altogether, and instead of continuing to coin standard silver coin at the Mints, to leave them free to work at the token currency, by attaching Government Issuing Establishments to each Mint, where bank-notes should be issued against silver bullion only, when brought in sufficient quantity, and properly assayed, and such bank-notes, or rather Mint certificates, of the deposit of silver bullion, should be given, free of all charge, in exchange for the bullion which they are issued against, the lowest bank-note to represent twenty rupees, and the highest five hundred. These certificates or bank-notes should be payable at the Mints, and be legal tender everywhere else.

3. To separate Government as soon as possible from the Banks of India. Sir Stafford Northcote hit the nail on the head when he said, during the debate on the Bank of Bombay, “I have no hesitation in stating that, if by a stroke of the pen I could have

cancelled the connection of the Government with the Banks of India, I would have done so."

4. To allow Australian or English sovereigns to circulate as they do now, at ten rupees, but to make no attempt at present to change the standard of value from silver to gold.

5. When the Mint certificates or bank-notes issued by the Mints against silver bullion only become well known and numerous, to withdraw the right of issuing bank-notes from the Indian Banks, which now enjoy it.

And now, as to the valuing of gold, we must always keep in mind that what we call Mint price is a division and not a price, because gold is divided in the same way at the Royal Mints, nor has the value of the sovereign anything to say to this division, whether sovereigns rise or fall in value, whether the Mint be in London or at Sydney, 40 pounds troy of gold, 22 carats fine, are divided into 1869 stamped ingots or sovereigns. However largely the production of gold in Australia might be increased, the only effect this would have would be to make it fall in value, as compared with other commodities, more of it would then be sent to London, and this, if continued long enough, would make gold in London fall in value also. Once the trading communities of the world have enough gold at a certain value to carry on all their operations with, any further supplies can only have the effect of making the metal fall below that value, as compared with all other commodities. Where three sovereigns, for instance, had a certain purchasing power, four will now be required, and so on. "By Mr. Dunlop's statement,"

says Colonel Smith (page 51, "Remarks on a Gold Currency"), "Australian gold costs the same, if not more, on delivery in London, as it does landed in India, namely, £3 18s. 4d. per standard ounce; nevertheless, the greater part of it is sent to England, and sold to the Bank for £3 17s. 9d. per ounce only."

Such a statement may appear puzzling at first, but we think it can be made quite clear by the following instance:—Let us suppose a wool merchant in Australia to have some reason for setting up business as quickly as he possibly can in London. He goes to another wool merchant at Sydney, and he says, "I know you have a good lot of wool on its way to London, I shall be glad to give you some of mine which I have here in exchange for it, and you will give me an order to enable me to take yours when it arrives in London." If wool in London is worth one-tenth more than it is in Sydney, his friend answers, "Your wool and mine are equally good, therefore I have no objection, but for every ton I give you delivered in London you must give me a ton and 2 cwt. delivered here." Wool is worth more in London than it is in Sydney, and, therefore, to get a ton of wool delivered in London, more than a ton, though the wool is equally good, must be given at Sydney. It is exactly the same with gold; it is sent from Australia because it is worth more in London, and therefore, to secure the delivery of 10 ounces of 22 carat gold in London, somewhat more than 10 ounces of the same gold must be given in Sydney, so that where gold is worth the least, the quantity of it which we have to give to secure its delivery in the



countries where it is worth most, must be always greater than the actual quantity which is delivered in such countries. For instance, if 22 carat gold in London is worth one-tenth more than it is at Sydney, to get 10 ounces delivered in London we must give 11 ounces at Sydney. On the other hand, if we are in London, and want 10 ounces of 22 carat gold delivered in Sydney, we need only give 9 ounces. As the Mint price or division of gold is exactly the same in each place, our only way of expressing the nature of the transaction is by adding or subtracting from the Mint price in London or in Sydney; we must add one-tenth of £3 17s. 10½d. to this sum itself, to represent the price of gold in London bought at Sydney, while we must subtract one-tenth from £3 17s. 10½d. to represent the price of gold in Sydney which is bought in London. We thus arrive at the Australian and Indian price of £3 18s. 4d.

It was this difference in the value of the same quantity of standard gold in two different countries at the same time which Mr. Goschen was thinking of when he said, "if we could get rid of all fluctuations of exchange, that would indeed be a very agreeable result. But even if the piece of twenty-five francs were made equal to the sovereign, and the two coins were absolutely identical, were two sovereigns in fact, the sovereign in France would not necessarily be equal to the sovereign in England. It would still depend upon the balance of trade, upon the demand for gold for remittance to England or for remittance to France ; you would never get rid of the fractions." Mr. Goschen then proposed an international code with reference to bills of exchange. The author is decidedly

against an international coinage, but he approves of this suggestion of Mr. Goschen's ; and he also thinks that an international Mint code between Great Britain and those countries bound by the last monetary convention might be very useful, whereby all bars of gold held in stock and prepared for coinage should be of one weight, quality, length, and thickness, and have their value stamped upon them by the Mint they came from ; they would form a very convenient means of remittance.

The British Empire ought to have a distinctive gold coin, like the sovereign. God save the Queen, and God save her sovereigns too.

Our credit as a nation depends on the quality of our gold coinage, and we ought, consequently, to trust to none but our own Royal Mints for its manufacture, and to none but a Pix Jury of English goldsmiths for the verification of its weight and fineness. "But lest, through mistake or design on the part of any of the Mint officers," says Mr. Watherston ("Gold and Silver Assaying"), "any error should creep in, by which the coin of the realm should be depreciated or suffer loss, the Legislature has wisely enacted that at certain specified times a jury of twelve indifferent practical goldsmiths, well skilled in the art and mystery of assaying, shall be empannelled under the superintendence of the Goldsmiths' Company, to sit in judgment upon the coin of the realm, and by weighing and assaying it themselves, to act as an infallible check upon the the paid officers of the Crown. This jury is called the Pix Jury, owing to the duties it has to perform, and which are briefly these :—Whenever a batch of gold or silver

coin is made at the Mint, the Legislature has enacted that a certain proportion shall be selected or picked out at random, and be carefully preserved as a sample of the weight and fineness of the whole. These coins so picked out (the number of which varies according to the number that has been coined, but always having an exact proportion to the same), are carefully wrapt up in paper parcels, sealed with the seal of the Wardens, Master and Comptrollers of the Mint, and enclosed, as being a given number of coins, indifferently selected from a certain quantity that was coined on a certain day, and deposited in a box, called the Pix Box, under the lock and key of the above-named sworn officers of the Crown. The duty then of the jury is to weigh and assay these coins, and it is plain that if they prove to be correct in weight and fineness, so must the mass have been from whence they were taken. The whole proceeding is conducted with the greatest solemnity, the opening of the box, unsealing of the parcels, and examining the coins, taking place in the presence of the Privy Council, presided over by the Lord Chancellor, who delivers a charge to the jury, pointing out to them the importance of the duty they are about to undertake."

We here add a translation of the Monetary Convention, taken from "The Economist" of the 15th September, 1866:—

## PREAMBLE.

His Majesty the King of the Belgians, His Majesty the Emperor of the French, His Majesty the King of Italy, and the Swiss Confederation, being equally desirous of establishing a more complete harmony between their monetary legislation, to remedy the inconveniences which press upon the communications and transactions between the inhabitants of their respective States in consequence of the diverse values of their coined moneys, and to contribute by the formation of a Monetary Union to the progress of uniformity in weights, measures, and currency, have resolved to conclude a convention to that effect, and have named as their Commissioners-Plenipotentiary as follows:—

His Majesty the King of the Belgians—M. Frederic Fortamps, Director of the Bank of Belgium, etc., and M. Kreglinger;

His Majesty the Emperor of the French—M. Marie Louis Felix Esquiron de Parieu, Vice-President of the Council of State, etc., and M. K. J. Pelouze, President of the Coinage Commission;

His Majesty the King of Italy—M. Isaac Artom, Councillor of Legation at Paris, and M. V. Pratomongo;

The Swiss Confederation—M. Kern, Envoy Extraordinary to His Majesty the Emperor of the French, and M. Feer-Herzog;

Who, after mutually exhibiting their respective full powers in good and due form, have agreed upon the following Articles:—

Article 1. Belgium, France, Italy, and Switzerland are constituted a Union as respects the weights, values, form and currency of their respective coinage in gold and silver. No change is made at present in the legislation relating to the copper money of each of the States.

Article 2. The high contracting parties engage not to coin

nor to allow to be coined, bearing their impressions and designs, any gold moneys in any other forms than those of gold pieces of 100f., 50f., 20f., 10f., and 5f., fixed as to weights, values, allowance for loss, and diameter as follows :—

Nature of Pieces.	Full Weight.	Allowance in Weight at home and abroad.	Standard.	Allowance from Standard.	Diameter.
Francs.	Grammes.	Thousand Parts.	Thousand Parts.	Thousand Parts.	Millimetres.
100	32,258.06	} 1 2 3 }	900	2	35
50	16,129.3				28
20	6,451.61				21
10	3,225.80				19
5	1,612.90				17

They shall receive without distinction into their public treasuries gold pieces coined according to the foregoing conditions in one or other of the four States, with the reservation, nevertheless, of excluding all coins whose weight shall have been reduced by wear to the extent of  $\frac{1}{2}$  per cent. below the allowances mentioned above, or where the stamped impressions shall have become effaced.

Article 3. The contracting Governments bind themselves not to make, nor allow to be made, silver pieces of 5f., except according to the conditions of weight, standard, allowance, and diameter fixed as follows:—

Full Weight.	Allowance.	Full Standard.	Allowance.	Diameter.
25 grammes.	3,000ths.	900,000ths.	2,000ths.	37 millimetres.

They shall mutually receive the said coined pieces into their public treasuries, with the right of excluding those which shall have lost weight by wear to a greater extent than 1 per cent. below the allowance above mentioned, or where the stamped impression shall have become effaced.

Article 4. The high contracting parties henceforth shall not manufacture silver pieces of 2f., 1f., 50c., and 20c., except

according to the conditions of weight, standard, allowance, and diameter as follows:—

Descrip- tion.	Full Weight.	Allowance in Weight.	Full Standard.	Allowance.	Diameter.
Francs.	Grammes.	Thousand Parts.	Thousand Parts.	Thousand Parts.	Millimetres.
2	10	} 5 }	835	3 }	27
1	5.00				23
0.50	2.50				18
0.20	1.00				16

These pieces shall be recast by the Governments that issued them when they shall have become reduced by wear to the extent of 5 per cent. below the above-mentioned allowance, or when their stamped impressions shall have become effaced.

Article 5. The silver pieces of 2f., of 1f., of 50c., and of 20c., manufactured otherwise than according to the various conditions specified in the foregoing Article, shall be withdrawn from circulation before January 1, 1869. This period is extended to January 1, 1878, in respect of pieces of 2f. and 1f., issued in Switzerland by virtue of the law of January 31, 1860.

Article 6. Silver pieces, manufactured according to the conditions of Article 4, shall have legal currency among private individuals in the State which has manufactured them to the extent of 50f. in a single payment. The State which has issued them shall receive them from its own countrymen without any limit of quantity.

Article 7. The public treasuries of each of the four countries shall accept silver moneys coined by one or several of the other contracting States, in conformity with Article 4, to the extent of 100f. in each single payment to such mentioned treasuries.

The Governments of Belgium, France, and Italy shall receive upon the same terms until January 1, 1878, the Swiss pieces of 2f. and of 1f., issued by virtue of the law of the

31st of January, 1860, and which are assimilated in all respects during the same period to pieces manufactured in accordance with the conditions of Article 4. The reservation in respect of wear, mentioned in Article 4, applies in all cases.

Article 8. Each of the contracting Governments undertakes to receive back from individuals or from the public treasuries of the other States the old coinage which it has issued, and to exchange it for an equal value in current coin (gold pieces or five-franc pieces in silver), upon conditions that the sum presented for exchange shall not be less than 100f. This obligation shall be prolonged for a period of two years from the date of the expiration of the present treaty.

Article 9. The high contracting parties shall not issue silver pieces of 2f., of 1f., of 50c., and of 20c., struck according to the conditions mentioned in Article 4, beyond the ratio of 6f. in value for each inhabitant. This amount, upon the basis of the last census in each State, and reckoning the presumed increase of population until the expiration of the present treaty, is fixed thus:—

	Francs.
For Belgium.....	32,000,000
For France .....	239,000,000
For Italy .....	141,000,000
For Switzerland .....	17,000,000

Taken on account of the sums above mentioned which the Governments have the right to stamp of the values already issued:—

By France, in virtue of the law of the 25th of May, 1864, in pieces of 50c. and 20c., for about 16 millions.

By Italy, in virtue of the law of the 24th of August, 1862, in pieces of 2f., of 1f., of 50c., and of 20c., for about 100 millions.

By Switzerland, in virtue of the law of the 31st of January, 1860, in pieces of 2f. and 1f., for 105,000f.

Article 10. The date of coinage shall hereafter be stamped

upon pieces of gold and silver struck in any of the four States.

Article 11. The contracting Governments shall communicate to each other annually the total amount of their issues of gold and silver coins, their position as to the withdrawal and remelting of the old coinage; all the arrangements and all the administrative documents relating to coinages.

They shall also give to each other information of all facts which concern the reciprocal circulation of their gold and silver moneys.

Article 12. The right of acceding to this Convention is reserved to any other State which shall accept its obligations, and which shall adopt the monetary system of the union in whatever relates to gold and silver specie.

Article 13. The execution of the mutual engagements contained in the present Convention is subject, as far as may be necessary, to the fulfilment of formalities and regulations prescribed by the constitutional laws of those of the high contracting parties which have determined to obtain their application, and which they bind themselves to do with the least possible delay.

Article 14. The present Convention shall remain in force until the 1st of January, 1880. If one year prior to that date notice to determine it shall not have been given (*dénoncée*) it shall remain obligatory in full force for a further period of 15 years, and, in like manner, for further periods of 15 years in the absence of denunciation.

Article 15. The present Convention shall be ratified, and the ratifications thereof shall be exchanged at Paris within the space of six months, or sooner if possible.

In faith of which the respective Commissioners-Plenipotentiaries have signed the present Convention, and have affixed to it the seals of their arms.

Made in four parts at Paris, December 23, 1865.



# SPEECH

BY THE

RIGHT HONOURABLE G. J. GOSCHEN  
*AT LEEDS.*

ON

THE INSUFFICIENCY OF OUR  
CASH RESERVES AND OF OUR CENTRAL  
STOCK OF GOLD.



LONDON :

EFFINGHAM WILSON & Co., ROYAL EXCHANGE, E.C.

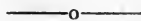
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1891.

(*Sixpence.*)



## PREFACE.



IN republishing the address which I lately delivered at Leeds, I have confined myself in the main to verbal corrections and to the amplification of some sentences which seemed to be obscure. I have not endeavoured to rewrite any passages which, as criticisms have shown, might have been better expressed.

For a fuller explanation of my general views, and for a reply to the very various suggestions and comments made in respect of the principles which I attempted to lay down, I must await another occasion. At present I would only ask that it may be borne in mind that I simply placed a sketch before the public, opening up a number of questions and suggestions for preliminary discussion, but distinctly disavowing any final or formal plans. The widespread public discussion to which my utterances have led, will be of very great service to me in carrying forward the elaboration of such plans.

On one topic alone of those touched in my speech I should like to say one word of explanation, or rather of correction.

I find that the way in which I expressed myself as to devising possible precautions against panics, and as to the establishment of larger reserves, side

by side with remarks on the "Baring crisis," has led to some misapprehension.

I did not mean that, if financial houses undertook liabilities on too gigantic a scale, any banking or currency precautions could prevent disastrous results, especially to themselves. But I intended to call attention to the fact that the catastrophe might have been vastly aggravated to others from the existence of too small aggregate reserves in the hands of the banking and financial world to meet such a crisis. I wished to emphasise the "unpreparedness," in my judgment, of the banking world to meet a strain even less than that which so extraordinary an event as the straits of the great house in question brought about. Some of my critics have said: "Such an abnormal event can never occur again." But even if this were granted, it seems to me nevertheless to be true that the lesson of insufficient reserves and insufficient stock of gold, taught the country in November last, is none the less of the deepest importance, as it is applicable to many panics and times of difficulty falling far short of the extreme danger revealed on this particular occasion.

GEORGE J. GOSCHEN.

69, PORTLAND PLACE, W.,

*18th February, 1891.*

# THE INSUFFICIENCY OF OUR CASH RESERVES AND OF OUR CENTRAL STOCK OF GOLD.

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*From the "TIMES," 29th January, 1891.*

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MR. GOSCHEN said: Mr. President and Gentlemen,— I thank you most cordially for the magnificent hospitality which you have extended to me to-night, and for the warm welcome which you have given me. I have to thank the President for a most genial speech. Perhaps in no other country, except in these favoured islands, would it be possible for a political opponent so gracefully and kindly to allude to the services of one who is opposed to him in politics as has been done at this gathering to-night by the President of the Chamber of Commerce. I was pleased to hear the tribute which he paid to one to whom I am deeply indebted, to my colleague, Mr. Jackson, who is rendering untold services to the State, and to whom personally I am most grateful for the assistance which he renders me. Your President has given me a number of useful hints as to the wishes of the Chamber of Commerce of Leeds and of his fellow townsmen. I pictured in my mind a possible surplus, and I wondered how his various hints would diminish that surplus by degrees. I wondered how far the suggestions he made to me would, if acted on, allow me to proceed in the direction of assisted education, to which I believe both parties in the State are pledged, and to which they look forward with interest and pleasure. When I hear the various calls

which it is suggested should be made on the public Exchequer, I note them, but I am not always able to say that I note them for the purpose of execution. It would be of great satisfaction to me if in all directions I should be able to satisfy the aspirations of those who would like to have a share in the surplus, but after some experience I frankly tell you that the distribution of a surplus is more difficult than the imposition of taxes to meet a deficit. Nevertheless, I should not be sorry to have a surplus to distribute.

Gentlemen, you have given me a cordial welcome, and we are now at an hour when generally genial after-dinner influences forbid the introduction of heavy or serious topics, and it goes against the grain that I should have to requite your kindness by inflicting upon you an harangue upon some very serious aspects of our national, commercial, and manufacturing life. But you will forgive me if I take this occasion to put before you some considerations which I think may not be unworthy of your attention and interest. I am anxious to speak to you upon matters which cannot fail to be interesting to every man who is engaged in commerce and trade. I wish to address you upon banking reserves, upon currency, upon the question of the attitude of this country with regard to its enormous liabilities and its means to discharge those liabilities in a manner creditable to our name and calculated to maintain that splendid fabric of credit which has done so much to promote the prosperity of the people and to command the admiration of Europe and America. You will admit this is not a topic which interests a section only of the community. If I speak to you about currency—though there is no subject which is more likely to conduce to indigestion by torturing the brain—nevertheless I speak of a question the satisfactory solution of which is essential to the sound condition of our commercial existence.

## THE RECENT CRISIS.

Your President has alluded to the times through which we have passed ; he has alluded to the state of things which in the months of November and December alarmed the country and created a feeling of tension such as has rarely been witnessed. No fertile imagination could exaggerate the gravity of the crisis ; and if I attempt to bring home to those who are listening to me now the serious nature of the crisis, I do so in order to accentuate the necessity of their turning their attention to what I may call the necessity for soundness in our banking and soundness in our currency transactions. I doubt whether the public has thoroughly realised the extent of the danger to which what is called the " Baring crisis " exposed us all. It was not a question of a narrow circle of financiers or traders. The liabilities were so gigantic, the position of the house was so unique, that interests were at stake far beyond individual fortunes, far beyond the fortunes of any class. We were on the brink of a crisis through which it might have been difficult for the soundest to pass unscathed, for the wealthiest to have escaped. It was a time when none who had liabilities or engagements to meet could say how they could meet them, if a condition of things were to arise under which securities could not be realised, under which produce could not be sold, under which bills could not be discounted, under which there appeared an absence of sufficient cash to discharge the liabilities of the general public. That was the position at home, and I tell you what was at stake—you risked the deposition of London as the banking centre of the universe. You risked the supremacy of English credit, you risked the transfer of the business of this country to other European centres, if such a catastrophe had occurred as you were on the eve of witnessing. I cannot exaggerate the danger, the immediate danger, to which this country was exposed at that time ; and we are under a deep debt of gratitude to

the Governor of the Bank of England and to the Bank of England, for the position which it took up, which enabled us to tide over that crisis. I want to bring home to you here, and to the public who are not in London, but in the various mercantile and producing parts of the country, that this was not only a banking danger. The situation would have been brought home to you if banks who held your deposits, banks on whom you depended for your discounts, banks who supplied to you the means of carrying on that active trade for which this town is renowned—if these banks had been crippled; and crippled they would have been if that crisis had not been prevented. But beyond this, the country should understand that it is through credit that the crops are moved—all those raw materials on which the life of this country depends. How do you move the cotton from America which is to employ the men of Lancashire? How do you move those crops upon which the people depend for their sustenance? How do you bring to this country the various products of the soil of America, of Africa, and of Asia, without which we should scarcely be able to exist? You manage all this through a gigantic system of credit of which the ramifications go through every clime, through every country; and if that credit once broke down, I do not know how crops could be moved or how produce could be brought from other countries to this. Let me insist upon this point. Supposing that gigantic failures had taken place—you will follow me because you are men of business—men in New York would wish to continue to send cotton to this country as usual. They must be paid for the cotton, or they must trust to be paid for the cotton. What is the ordinary means of sending the cotton to this country? By bills on London houses. But to sell those bills you must have buyers, and for buyers you must have men who would have confidence in the credit and solvency of London firms, and if that had been absent, how would you have been able to move produce from various countries



to this? Simply by shipments of gold, and by no other means. Yes, you had securities, but who would buy them at that time? Yes, you had assets, but men stood in the centre of their assets unable to realise them, wishing to sell, but unable to utilise this wealth for the payment of their liabilities; and men trembled for their honour, they trembled for the name they had built up through scores of years, wondering how through the dangers which were surrounding them they would be able to maintain their own personal name, and how the names of the great houses in this country would be able to stand the crisis.

### THE MEASURES TAKEN TO SAVE THE SITUATION.

Gentlemen, I tell you you have escaped from a catastrophe to which the famous catastrophe of Overend and Gurney would have been child's play. You have escaped from a catastrophe which would have affected every town, which would have affected every industry; to use a common phrase, you have escaped "by the skin of your teeth." Well, I ask you what were the measures taken; and, mind, I wish you to understand this—that if I place before you the dangers to which this country was exposed, I do so in order that we may see what was wrong, and consider whether by prudent courses such dangers may be averted. Well, what saved the situation? In one sense I have told you already. It was saved in part by the capacity of those who were governing the Bank of England at the time. But what measures were taken? They brought from France three millions of gold; they brought from Russia a million and a half of gold. Knowing the panic that might ensue, knowing the rush that there would be on the reserve of the Bank of England, they took a preliminary precaution by extraordinary means—for ordinary means would not have sufficed—they took the extraordinary means of drawing from abroad four millions and a half of

gold, or I might say five millions, as other measures were also taken. For this course we depended in part on the good will of the authorities of the Bank of France. Paris was interested in saving the situation. Let there be no mistake about that. A crisis such as might have occurred in London could not have failed to have its counterpart in Paris and Berlin, and Paris would have suffered grievously if the catastrophe had not been avoided. But, nevertheless, the Bank of France acted with promptness, and we can frankly acknowledge that courtesy, and so the three millions of gold came from the Bank of France to the Bank of England, and were an element of strength at an important moment. At the same time there were some who considered that there must have been something wrong in the situation that it should have been necessary for this country, with its immense wealth, to have recourse to foreign aid on such an occasion. Well, the Bank of England strengthened its resources, and, calling together the great banking institutions, it secured a guarantee which saved that credit which it was so essential to save at that moment, not the credit of the house, but the credit of London, the credit of England, and I rejoice to think that the credit was saved not by the action of the Government, but that it was saved by the spontaneous efforts of the banking classes themselves. There were not wanting voices who gave utterance to the view that it was the duty of the Government to intervene, but it would have been a disaster to have done so. I should have been sorry to have had to come forward in the House of Commons and to say that two or three years ago in Paris, when there was a panic through the breakdown of a great institution, the great firms of banks of Paris came together and saved the situation, but that here in London it had been necessary to invoke the action of the Government. I should have been ashamed if there had not been sufficient patriotism, sufficient public spirit,

and sufficient go in the great financial institutions of this country to meet such a crisis under a wise lead. What you want on these occasions is a lead—you want a man. You want a man to come forward and say—"You all must do your duty." There was a temptation to the banks, each one to look to itself and to aggravate the crisis by calling in all its money, by refusing accommodation to customers, and in that way intensifying the feeling of anxiety which existed. There were moments when that was apprehended, but that movement vanished in a day; it vanished when it was powerfully put to the great banking institutions—"Here is an occasion when, putting aside any timid counsels; you must come forward to endeavour to rescue the credit of London, not only to save a firm, but to save the supremacy of British credit."

### CASH AND CREDIT.

Well, gentlemen, it was done, and the situation was saved. I have shown you how we got out of the difficulty. Two things were necessary—you had to find cash, you had to find gold, and you had to restore general credit. The gold was found; the reserve was increased by the efforts of the Bank of England, and credit was saved by the action, the joint action, of the great banking institutions of the country. But now, when the crisis was over, men began to say—"Why should we ever have got into this difficulty?" Some said—"Oh, it is the fault of the Bank Charter Act." Others said—"The capital of the Bank of England is insufficient;" and others said—"There is not sufficient elasticity in our currency system," which means to say that the printing-office for printing bank notes is not put into sufficient activity in dangerous times. Well, you, as men of business, I hope, will understand that what is necessary to get men out of a difficulty when they have undertaken more liabilities than they can meet,

is to have cash. It is cash that is wanted. In the case of foreign liabilities—and on this occasion foreign liabilities were enormous, not only foreign liabilities of one firm, but the foreign liabilities of the nation—on these occasions bank notes are of no sufficient avail. What you want is cash—gold which will pay your liabilities in foreign countries; and the printing press at a moment of this kind is a danger, and not a resource. And that is what I want to bring home, if I can, to the public generally, that they will lean upon a reed which will break in their grasp, that they will be encouraging the most dangerous of ideas, if they think that any elasticity or increase in the currency would have saved them from such a danger as that to which they were lately exposed. Why, what do you want at such a moment? You want men who have ready cash with which they could step into the breach. You do not want institutions who have at the moment simply to realise everything they have got in order to meet their own enormous liabilities; you want men with some reserve who may come to the assistance of the community at large, and, stepping in, may assist those who have possibly over-traded by purchasing a portion of their securities and taking over a portion of their assets. But that was not the case on the late occasion. What was developed, to my mind, was this—that there were not sufficient banking reserves in the country, and on that, if you will permit me, I wish presently to say another word or two of warning.

### THE QUESTION OF GOLD.

But I have spoken of the question of gold. Let it be thoroughly understood that in this country our liabilities are to pay in gold. That is the liability which we have undertaken to foreign countries; that is a liability which the Bank of England undertakes to all who hold its notes.

It is a truism to say so in a company such as this is, but it is one of those truisms which, like other truisms, are sometimes buried in the memory of men who do not like them. I have reminded you that it was necessary—that the Bank of England thought it necessary—to bring from foreign countries a certain quantity of gold by extraordinary measures. Now I wish you to consider the position of this country as the banking centre of the world. We have great advantages through its being the banking centre of the world—advantages which arise in great measure from this—that it is known that any obligations held payable in England mean absolutely and safely so much gold. Do not let us forego that advantage. What does it mean? It means that we have to a great extent the command of capital from abroad. The safety of our institutions, the soundness of our currency, has this effect—that foreigners hold their reserve in bills payable in gold in London. We are able to tap the Continent for cheap money. That cheap money flows over the whole length and breadth of the land, and without your knowing it, here in Leeds, Bradford, Liverpool, and elsewhere, the value of capital is cheapened because the soundness of our currency system attracts gold from abroad, and not only attracts gold, but induces the foreigner to hold bills payable in London, and thus lend us money at a cheap rate. We have a great advantage in that respect. It would take me more time than I ought to consume to dilate upon this particular point, but it is an important one. The soundness of our currency and the obligation which we, more than any other country, have undertaken—to pay in gold—secure us cheaper capital to the benefit, not of the capitalists, but, in competition with the native capitalists, to the benefit generally of the commercial and producing classes. That is the advantage.

But I do not deny that, on the other hand, it places us at some disadvantage, and it is that point to which I wish to call your attention. We are the great gold market of

the world, and at the same time our available stock for use, for sale, for immediate purposes, is extraordinarily small as compared with the stock of gold held by other countries. We being the country on whom all can rush for the immediate purpose of getting gold, our stock—our available stock I mean—is nevertheless smaller to an extraordinary extent than that of any of the great Continental countries. When gold is wanted, where do people go to? We have not so large a stock as other countries. Why do not they go to France? Why do not they go to Germany? There are always a large amount of bills on Berlin which might be turned into gold. Why can we not drain Berlin in the same way as the Germans are able, if they wish, to drain London? Because circumstances are interposed of a character which it is difficult for me accurately to describe, but which I will call moral difficulties. Supposing that any firm had in its hands a couple of millions of bills on Germany which it wished to cash, and for which it was anxious and determined to get gold, it would naturally send those bills to Berlin. It would apply to Berlin to discount those bills, or present them for payment, and ask for the gold. The probability is that the bank to whom the order was given would decline the commission, fearing to be placed in an invidious position. In banking circles at Berlin a kind of moral pressure is put on, and every effort used, in order to prevent the depletion of the stock of gold at that banking centre, pressure which no one in this country would approve of, pressure which I will show you in one moment is absolutely impossible here.

Why do not they go to France? If they go to France, well, on presenting their bills they may be offered silver and not gold, if it is inconvenient to the Bank of France to pay in gold. Therefore, again, from France you cannot get the gold which is wanted. Thus, when gold is wanted, they come to London. I have seen that some foolish people have said — “Why does not the Bank of England put a premium upon gold in order to

prevent its export under extraordinary circumstances?" Let me, with one sentence, shatter that fallacy. Put a premium on gold? Yes; you can put a premium on bullion, or upon foreign coin, but, considering that the notes of the Bank of England are payable in sovereigns, any one who has a claim upon the Bank of England, or who has any bank notes, can immediately proceed to the Bank of England and demand sovereigns for their notes: and unless you have an inconvertible currency, or unless you have a kind of moral and political pressure that in this country would never be stood, or unless you have bimetallism, the acceptance of which I do not look upon as a practical possibility,—unless you adopt one of these measures, London remains the centre to which men will come under pressure. Now, I think I have made that clear. I think I have made it clear that by no means whatever can you, through demanding a premium, stop the export of gold from London. You could put a premium upon bullion; but it would be effective only to the slight extent to which the bullion is more suited for export than sovereigns, for sovereigns they can always get. I venture then to put before this company that London is the market for gold, that it is one of the conditions of its banking supremacy that it must be the market for gold, and that this supremacy is attended with immense advantages, with great profit to this country; and, on the other hand, that it exposes it, in a somewhat remarkable degree, to the vicissitudes of the market for gold, and that at times it has an influence upon our commerce and banking operations which is viewed with alarm by a portion of the community and disturbs the even tenor of their way.

I have shown you the position of this country as a market for gold, and I am not going to trouble you with many figures in an after-dinner speech. It is bad enough that I have to trouble you with currency theories.

## BULLION RESERVES IN ENGLAND AND ELSEWHERE.

But I do wish to put before you the bullion reserves in different countries. The Bank of France holds in gold and silver 95 millions sterling. The Bank of Germany holds 40 millions sterling in gold and silver. The United States hold in the Treasury and in the national banks 142 millions sterling in gold and silver. The Bank of England, which is the great depository of bullion in this country, holds 24 millions sterling, you may say, at ordinary times, of gold. You have therefore this position—that the stock of bullion at the centre of this country is 24 millions, compared with 95 millions of gold and silver in the Bank of France, with 40 millions in the Bank of Germany, and with 142 millions in the United States. And here is the position—that the very centre on which the pull comes has an infinitely smaller stock of that metal than any of the other countries. I think that is a matter which, capable of explanation as it is, ought to sink into the minds of all business men. Mind, our system is built up on gold. For good or evil, the immense liabilities of this country would have to be discharged, if need there were, in gold; and this country is the one on which, if three or four millions are wanted, the immediate pull comes in the first instance. We have got a very small available stock ready for the moment, and hence arise sudden changes in the value of money. If you have so small a stock of bullion and so small a reserve—and on that I will say something in a moment—if you have so small a reserve, it follows that any large amount, or even a comparatively small amount, withdrawn from such a comparatively narrow base for carrying so enormous a pyramid, will have an effect which is disproportionate to the extent to which the gold is withdrawn or the reserves diminished. Is this worse or better than it used to be? Here are some interesting figures. The Bank of Germany in 1831 held about 28 millions



sterling of bullion. In 1889 it held 43,800,000. The figures in the United States are very remarkable. In June, 1873, the amount of gold coin and bullion in the Treasury was £14,500,000. In 1889 it had risen to £60,700,000. In the National Banks it stood at £600,000; it has risen to £16,000,000. In the case of silver you see a still more extraordinary increase, and I will add the two together and say that the total gold and silver in coin and bullion in 1873 was, in the United States, £16,000,000; in 1880 it was £56,500,000; and in 1889 it had risen to £142,000,000. I want you to consider those figures. The old view was this—"Why should you have any large amount of gold in the country? Happy the country that saves itself from holding an unnecessary amount of bullion. Happy and prosperous is our condition, if keeping 24 millions of bullion only, we be able to compete with those other countries who have these enormous stocks." But in looking to the facts and considerations which I have pointed out, I can no longer feel that that view holds good. And, pray, understand me rightly, I am speaking of the immediately available stock in this country. Though we have—and this is essential to the point which I shall put before you presently—comparatively a small amount of bullion at the centre, we have a very large amount of circulating gold. The amount in circulating gold is greater, I believe, than that in those countries who hold so much gold at the central establishment.\*

Opinions differ as to the amount of gold which is in circulation in this country. The estimates vary from 65 or 70 millions up to the point of 110 millions; but, however that may be, we have little gold at the centre, and we have a very large amount of circulating gold. But I want to ask—and that is a point which has been interesting me deeply—how far is the gold which is circulating in the pockets of the people available

\* I understand that this is questionable. Some authorities hold that the amount of gold circulating in France is as large as ours.

when a crisis comes? and would it not be better to have a portion of that gold replaced possibly by other forms of currency, if at the same time you had more gold under your control than the amount we have in the Bank of England at present. I tell you, not only as viewing the matter from the point of view of currency, not only from the point of view of one who has had some acquaintance with banking matters, but as one who is responsible with others for the safety of the country, I consider that, looking to the fearful national emergencies which might come—but which, please God, will not come, but which every statesman is bound to consider as possible—that the amount of central gold in the possession of this country, compared to the enormous amounts at the disposal of other countries, is a matter which requires attention, one to which we ought to look with some anxiety, not exaggerated anxiety, but we ought to see whether we cannot contrive some methods by which we can alleviate special moments of difficulty, and hold a large stock of bullion in reserve, not only for the banker, but for every possible emergency. My mind is therefore fixed upon this. I would sooner that 30 millions, say, of £1 notes—(loud cheers)—Gentlemen, you had better hear me to the end. I have something to say about £1 notes; but I wish to confine myself at present to one proposition, namely, that, as a simple question of gold, of a national resource of gold for emergencies, I would sooner have 20 millions at the centre than 30 millions in the waistcoat pockets of the people. But still I would not like to have the 30 millions in the waistcoat pockets of the people represented by only 20 millions at the central establishment. That is a point upon which I wish to put in a word of warning. I will not be a party to the expulsion of gold from this country by any excessive issues of any fiduciary currency. If there is to be an increase of fiduciary issue, I will endeavour to make it subservient

to what I consider to be the primary point, of making us stronger both for banking and for national purposes. For that object, and for that object alone, would I embark in any scheme such as that of the £1 note.

## THE CASH RESERVES OF THE COUNTRY.

I come now to a point of scarcely less interest, the cash reserves of the country, apart from the question of gold, and here I must give utterance to a strong conviction that the banking reserves of the country are inadequate to the necessities of the country, and are too small as compared with the gigantic liabilities which our large institutions have incurred. On that point I should wish to put a figure or two before you. They are stupendous figures. Ordinary mortals are unable to understand astronomers when they tell us the distance in miles which we are from the sun, and ordinary mortals can scarcely grasp the hundreds of millions which enter into the transactions of our great joint-stock banks. I wish to put this argument before you—that in times of crises reserves are essential, and that it is of supreme importance that all the great banks of the country, at the moment a crisis comes, should be able to afford relief to their customers rather than feel at that moment bound to curtail the facilities which they are giving. It is all very well for banks to give facilities to their customers in good times, but a customer looks to his banker for facilities when the pinch comes, and if, when the pinch comes, the bank itself is obliged to draw in its resources, to call in money, it disturbs all mercantile arrangements, and the bank is really not assisting the country, but is thwarting the interests of the banking and trading communities. Listen to the figures. The *Economist* estimates the total deposits on current account held by all the banks in the United Kingdom, excluding the Bank of England, in July, 1880, at from £470,000,000 to £480,000,000; and in July, 1890, at from £600,000,000

to £620,000,000, an increase in those ten years of £130,000,000. I cannot tell you, because I have not got the materials at my command, to what extent the banks in the aggregate increased their reserve in cash in proportion to the enormous increase in their liabilities; but I can give you some indication by the published accounts of some of the largest banks. According to the *Economist*, the liabilities of eleven large banks were, in 1879, £126,000,000, while their cash in hand, or at the Bank of England, amounted to £16,200,000. In 1889 the liabilities had risen to nearly £170,000,000, an increase during those eleven years of £44,000,000, but the cash balances had risen in the same time only to £17,500,000, an increase of £1,300,000. Observe the operation—£44,000,000 increase in liabilities to depositors,—increase in cash reserve to meet them, £1,300,000. I hope I shall not give offence, but I say I do not consider that a perfectly satisfactory position. On further examination, I find the proportion of cash to liabilities had fallen during the ten years from 12·9 to 10·3, a decrease of 2·6 on 12·9, which is about one-fifth of the whole reserve. During these ten years the change has been that you have only four-fifths of the reserve which you had before; and in the case of one bank the percentage of cash to liabilities had sunk from nearly 22 per cent. to 12 per cent., and in another case, where the percentages had fallen from 10 per cent. to a little over 6 per cent., the cash balance against the total liabilities of £9,000,000 was less than £600,000. A good deal of public attention has been called to these facts. It has been shown that, while the liabilities to the public have been enormously increased, the proportion of reserve has actually fallen. The reserve, let me make you clearly understand, is cash in the till or cash at the Bank of England. Some banks include cash on call, but cash on call is no reserve in the general sense so far as the community is concerned, because when you call in your money on call, you may be embarrassing another person, while you may be relieving your

self. Let the public understand this—there is only a limited amount of money unemployed. If everybody employs money up to the hilt, there will be no unemployed money to come to the rescue in time of crisis. If you employ the money by lending it to another person, if you lend it to a broker, that broker cannot find the money except by going somewhere else. He goes somewhere else, and the whole demand in the end concentrates itself upon the Bank of England, and there is no reserve to a bank in having money on call, in the sense in which I am discussing reserves. Money on call is a valuable asset, but it is not an asset which constitutes a reserve useful to the general interests of the community at large.

#### THE BANK OF ENGLAND AND THE OTHER BANKS.

Now the banks, I believe, have taken up this position—viz., that it is no good to hold large reserves, as they would simply be putting their money into the hands of the Bank of England, with the result that the Bank of England would then make interest upon that money. But look at the late crisis. What was the establishment upon which the whole community relied when the time of crisis came? It was the Bank of England, and the bankers themselves had to strengthen their reserves at the Bank of England, and were not able to bring that general alleviation to the community at large which was extended by the Bank of England. I am most anxious to avoid saying anything which may reflect upon our great banking institutions. They have done immense service to the country. They have brought together in their deposits capital which, being lent out again, has had fertilising influences, and has assisted the commerce and the industry of this country. I say nothing against them. But I say it is a false system and a dangerous system, to rely simply upon the aid the Bank of England can give in a crisis, and to take no

thought how they are to meet the difficulties which might arise, except by such action as the Bank of England may possibly take with the Government, as they think, behind the Bank of England. I should be glad to be able to devise some system, and I am engaged, and hopefully engaged, with the assistance of the authorities of the Bank of England in devising some scheme, by which we may strengthen the permanent reserves of this country, by which we may give greater help in emergencies, and by which we hope that some of those panics which have threatened the commerce of this country may be avoided. I am engaged on plans of that kind, and I trust I may be able to give effect to them. But we shall only aggravate, we shall not alleviate, the position, if any relief given in the shape of a second reserve, beyond the first reserve, should have the effect of inducing the joint-stock bankers to trade further up to the hilt than they have hitherto; if we should encourage the belief that there is safety at the centre, and that therefore we may invest our deposits to any extent, and that we may rely, instead of holding our own reserves, on the action of the Bank of England and the Government. Unless I saw some disposition on the part of the bankers of this country to take their share in any reforms that may be necessary, unless I saw a disposition to assure us that we are not again to be at the mercy of foreign countries—that we are not to be obliged suddenly to import gold from abroad, not in the ordinary way, but by special appeals for aid, that we shall not be at the mercy of such circumstances as have lately occurred—I should hesitate to act, for I hold that the great banking institutions are bound to take their share in endeavouring to bring about such a result.

Gentlemen, the public has some *locus standi* in this matter. In former times the Bank of England was an institution so vastly greater than all the others that it was able to command the money market and impose its terms. Those times are changed. There are two banks who hold

between them nearly £80,000,000 of deposits against the £34,000,000 deposits of the Bank of England. The position of the Bank of England is changed in that respect. It has still the duty of endeavouring to meet all the necessities of a crisis; it still fills such a position that the whole of the country looks to it to extricate it from a difficulty, but it does not command any longer the same proportionate resources which it commanded in the old times. It is unable at this moment, in the face of this £600,000,000 of deposits entrusted to other banks, to take the same position as in times past.

### THE RESERVES OF PRIVATE BANKS.

Now, in America there is a limitation imposed upon private bankers which is of a very remarkable character. The national banks are obliged to hold 25 per cent. in reserve against their deposits. Those are the issuing banks, it is true, but the State has considered that it is so important that those banks shall meet all their liabilities, that it has imposed an iron limit of 25 per cent., and the banks are compelled to hold 25 per cent. in reserve against their deposits. I am bound to say that I should never propose to impose such an iron system upon our great banking institutions; but I mention it to show what they do in a free country such as America. The question of the proportion of deposits to liabilities was so serious that they introduced a cast-iron system. Then there are other suggestions—for instance, that, if there was an excess of deposits and liabilities beyond a certain line, that then should be done what is done in some foreign lands—the banks should have to pay a certain tax upon the excess of their deposits. I will not say what view I hold upon such a suggestion, but in the most friendly spirit I would indicate to the banks that the public have an enormous interest in the proportion of the reserve which they hold. Remember how closely banks are bound

together. Remember too the fact that the soundest and strongest banks may be making the smallest dividends because they do not over-bank, whilst the more imprudent banks who invest their deposits so deeply that they leave but a small reserve, are able to show much larger dividends to their Shareholders. Why are the latter able to take this course? Because they may have the conviction that the failure of any one of these big banks would be such a disaster to the whole community that the other banks would be compelled to come to their assistance, and to rescue the offending bank from the consequence of its offences by themselves undertaking a part of their liabilities. The more imprudent banks will say—"There is no imprudence on our part. We shall never be allowed to fail: our fellow bankers must come to our assistance, and, if not our fellow bankers, then the Bank of England; and if not the Bank of England, then the Government." I say that gives the public a *locus standi*, and in the same way as the Government has had a *locus standi* with regard to shipping, and has said that excessive cargoes shall not be carried because they are dangerous to the safety of the public, the question may arise whether the public might have the right to say that no excessive cargo shall be carried by banks receiving deposits—that business shall be conducted in a manner which shall be considered safe by the community at large.

There is one measure which I think may fairly be taken, and which the public would have a right to demand, and that is, the more frequent publication of accounts. At present Parliament has exacted either yearly or half-yearly accounts. I think Parliament would have a perfect right to demand that accounts should be published at more frequent dates. The public have the advantage of the publication of the Bank's return. It is a barometer—an important barometer to all you men of business. But the barometer is imperfect. It would be more perfect, if at the same time you were able to check and control the results which you



draw from those barometrical readings, by also studying the position of these great institutions, as mighty in their way as the Bank of England, holding great deposits, the condition of which is of such vast importance to every trader, to every manufacturer, to every commercial centre, I say that there ought to be some effort made in this direction of co-operation; and if it were made, if I saw that there was a tendency in that direction, I can see that measures might be taken to establish what I have indicated as a second reserve for the country at large.

### SUGGESTED IMPROVEMENTS IN CURRENCY— THE ONE-POUND NOTE.

I come now, and I will endeavour not to detain you much longer, to a point which perhaps will be more interesting to you than the description of the situation—namely, the point of suggesting improvements in our currency and banking system. If you have done me the honour to follow my argument so far, you will have seen that I thought that our gold reserve was generally insufficient, and our cash reserves also insufficient. I am not content to see such very constant violent fluctuations. I am not content to see their continuance, without at least considering whether some mitigation cannot be devised, upon the soundest and the most orthodox principles. But you will see there is one point upon which I am extremely strong, and that is that you should not devise any means to alleviate the situation which would mean a further expulsion of gold. Now, there is a favourite measure in the air, which is the increase of the fiduciary issue. Many persons think that such an increase would be a great advantage. An increase of the fiduciary issue means, as I understand it, the substitution of paper for gold. Well, supposing you were to issue £20,000,000 of £1 notes against security, and they were to take the place of £20,000,000 in sovereigns

in the pockets of the people or in the tills of the banks, what would happen to this £20,000,000 of gold? Is it the opinion of those who are in favour of this substitution that £20,000,000 would be added to our stock of gold? (A voice.—“Yes.”) No, this amount would not be added permanently to our stock of gold. The reserve of the Bank of England would indeed be increased for a time, but this addition, like all our gold, would be liable to be pulled at by the world at large. The gold replaced by notes would, as I say, when taken in by the Bank, for a time strengthen the reserve, and largely increase the money available for the public; but this very increase would lower the rate of interest, and would lead to an export of gold to nearly a corresponding amount, so that little would be gained. I cannot tell you the importance I attach to a thorough understanding of this truth by the people at large. Many believe that if we were to substitute paper for gold, we could keep all that gold at home under the ordinary arrangements of our Bank Charter Act. It is nothing of the kind. Paper expels gold unless you take particular precautions to retain the gold; and for my part I am totally opposed to any measure which would simply end in the expulsion of large amounts of gold from the circulation of this country.

Now, I want to ask—and it is an extremely interesting inquiry to any one who has paid attention to this question—I want to know what are the reasons why the £1 note is favoured. It is favoured here in Leeds. I saw that by the manner in which the suggestion that £1 notes might be issued was received by this company. There are various reasons, I think, why the £1 note is favoured. Some people favour it—and perhaps it is a large class, though I hope I shall not give offence in saying it is not a thoroughly instructed class—because they think it will increase the money of the country. That I have endeavoured to show will not be the case. Though the notes would be issued, gold would come in, gold would

go to the Bank of England, and under the ordinary laws of supply and demand gold would again leave the country. Therefore do not let it be believed that the issue of the £1 notes is going simply to add to the currency. If that were the object, I confess I for one should not be anxious to be a party to it. I do not believe in any artificial increase of the currency. I believe the soundness of business rests on men trading within their own means, within their own capacity for paying their acceptances, and that any man who leans on an increased issue of paper, who believes in the efficacy of the printing press simply for the avoiding of a crisis, ought not to be followed on those questions. I reject, therefore, the theory that the £1 note ought to be issued in order to increase the currency of the country. Again, I want to know this—and it is a matter upon which I feel the greatest possible doubt—Do people wish for the £1 note because it is more convenient than the sovereign? Of course we know that the Scotch and the Irish love the £1 note better than the sovereign. For my own part I plead guilty to an opposite feeling. I prefer a sovereign in my pocket to a £1 note, but I am not sure whether that is the common feeling. I should like to know whether to employers of labour, for instance, the power of conveying £1 notes conveniently and easily would not be a considerable advantage as compared with the difficulty of conveying the same quantity of gold. I can conceive that paper money in that respect would be more convenient for the payment of wages, and would have greater mobility. You could transmit it far more easily from one town to another, and it is possible that great advantage might ensue. But I say personally I require rather to be convinced upon that point. I know that there is a demand for £1 notes; but I want to know whether they are asked for because they are more convenient, or whether they are asked for from the wrong view, as I consider it, of a wish for more money. We have the indication that in most other countries they do prefer paper money to bullion, but I am doubtful as to

the feeling in England, and it may take some education before £1 notes become popular here. There is a third reason why the £1 note is put forward, and that is from the point of view of economy to the Exchequer. If we were to have thirty millions of sovereigns displaced by thirty millions of paper under some system which might be considered, there might be a great gain and advantage to the public Exchequer. We might make a few hundred thousands of pounds on one condition, and that is that the £1 note should be a cheap instrument. Then comes in the question—Will it to be a cheap instrument? Can you, with adequate precautions against forgery, with an adequate quality of paper, and with adequate securities in every direction, ensure a class of paper money which will realise the profit and the economy which has been prophesied. I cannot entirely eliminate, myself, the danger of forgery. It is an interesting point. In the United States they have a special detective department for the purpose of discovering frauds in the manufacture of bank notes. It is a matter which the authorities of the Bank of England and myself have been considering very carefully. At the same time the experience has been so great of the issue of small paper money, that I am bound to say that I do not know that the danger of forgery ought to decide the question in one direction.

Now, I wish to make what you may consider to be an important declaration. I would not be tempted by any economy to be made by the issue of £1 notes, to introduce them if the result should be that you should displace a large amount of gold currency from the country, and deprive this country of that resource in time of danger. And, speaking as a Chancellor of the Exchequer—though, Heaven knows, I like to get an accession of a couple of hundred thousand pounds to my revenue as much as any other Chancellor of the Exchequer—I say it would be dearly bought if you were to buy the increase to your revenue by any sacrifice which would weaken the system

of our currency. I look upon it as more important to put the currency in a sound and safe position than to gain for the Exchequer a couple of hundred thousands of pounds of public money. Thus I come back to a point which I indicated to you earlier in my address. If the issue of £1 notes were simply to result in the substitution of paper for gold, we should make money, we might produce some convenience, we might have economy, we might please the employers who would find readier means of transmitting their wages from one place to another, we might do much ; but we should be expelling a certain portion of gold—the gold which is circulated. Now that gold, I admit—and I have insisted on it—is not so important to us as gold at the centre, and I would sooner have 20 millions of gold at the centre than 30 millions of gold in the pockets of the people. It is a common saying that one bird in the hand is worth two in the bush. I prefer £20,000,000 in my hand to £30,000,000 in the bush—that is to say, in the pockets of the community—because you cannot lay hold of the latter ; you cannot get it in the same manner. But any movement to which I would be a party in the direction of the fiduciary issue must have this result—that you must stop the gold ; that the gold which would be brought by the public in exchange for the £1 notes, or any other form of notes, should be dealt with in such a manner as not to leave the country. I would establish a second reserve, not on the terms of the ordinary issue, but as a separate stock on which some additional amount of paper money might be issued only when emergencies should arise.

Thus I have considered the question, as you will have seen, of £1 notes.

#### TEN-SHILLING NOTES AGAINST SILVER.

I have also considered the question of the issue of 10s. notes against silver. That is a measure which has been

recommended by a part of the Royal Commission, and there are no economic objections to such a course. The half-sovereign is a very expensive coin, and half-sovereigns are circulated in enormous masses. I am told—I do not know how far it may be true—that in the payment of wages notes for 10s. would be extremely agreeable, as avoiding a great deal of carriage and a great deal of counting. But if I were to authorise the issue of 10s. notes, payable in silver, you will see that, when those half-sovereigns are brought in against which the 10s. notes would be issued, those half-sovereigns would have to be dealt with. I ask again—Are they to be added to the general stock of the world? I say “No.” I think you would be sacrificing the gold circulated uselessly unless you are able to retain a portion of that gold.

### A SEPARATE STOCK OF GOLD.

I do not know whether I have been able to make this portion—I will not say of my plan, but of my principle—clear to those whom I am addressing. But what I mean is this. When, under the existing system, there is a suspension of the Bank Charter Act, you suspend the Bank Charter Act by a simple issue of paper, unsupported by gold, and sometimes almost add to the dangers of the situation by increasing your paper money at a time when gold is leaving the country.

Well, it would be infinitely better to command in this country a reserve of gold, a separate stock of gold, with which, in time of emergency, the Bank of England would be able to come to the rescue of the mercantile community generally. My object would be to establish a second reserve—a reserve which we should be able to establish by means of a certain fiduciary issue—and that this second reserve, under conditions to be defined, should take the place of the suspension of the Bank Charter Act by providing the means of the further issue of notes on the safest

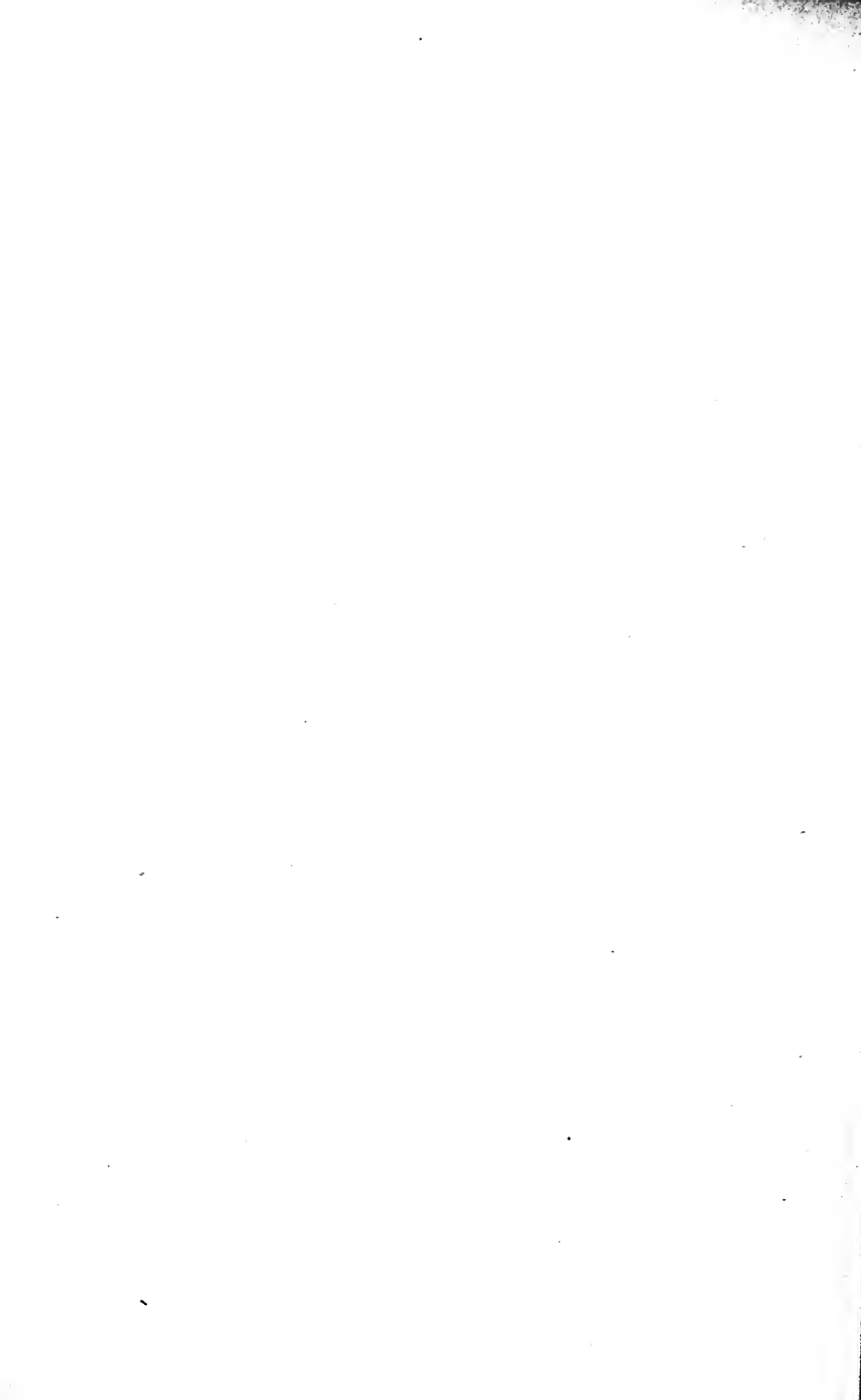
basis, when the position of the country might seem to demand it. If such a stock had existed, it would have been unnecessary to have applied to the Bank of France or to the Government of Russia, or to have negotiated with the authorities of any other country to increase your stock of gold at a given moment. I ask you now to return for one second to the point which I laid down at the beginning of my speech. I pointed out to you the small amount of bullion which we held, and showed to you that, in my judgment, that amount of bullion ought to be increased. I have now indicated a method by which I think it might be increased, and might be increased without imposing any tax on any portion of the community. It would be secured by the State foregoing a portion of the profit which it would make upon a fiduciary issue issued only against securities. A certain amount of gold would be lying idle and men would say—"Why should that gold remain idle? What a sacrifice!" Well, it would be the State which would have foregone a portion of the profit which it might otherwise make on the fiduciary issue, and it could say—"It is of such enormous importance there should be a larger reserve of bullion in the country that we have foregone this profit which we might have made upon our paper issues because we believe it to be better to secure a reserve to which, in times of crisis, recourse may be had." But such a solution would only be proper, such a solution could only be defended, if conditions were imposed which did not aggravate the situation at the time. It would be improper to touch such a store of gold if the exchanges were against this country. It would be improper to touch such a reserve if the rate of interest were not at such a point as to be likely to attract gold from other countries. Do not let us look to anything which would for a moment palliate the difficulty, but which would afterwards aggravate the catastrophe which we are endeavouring to avoid.

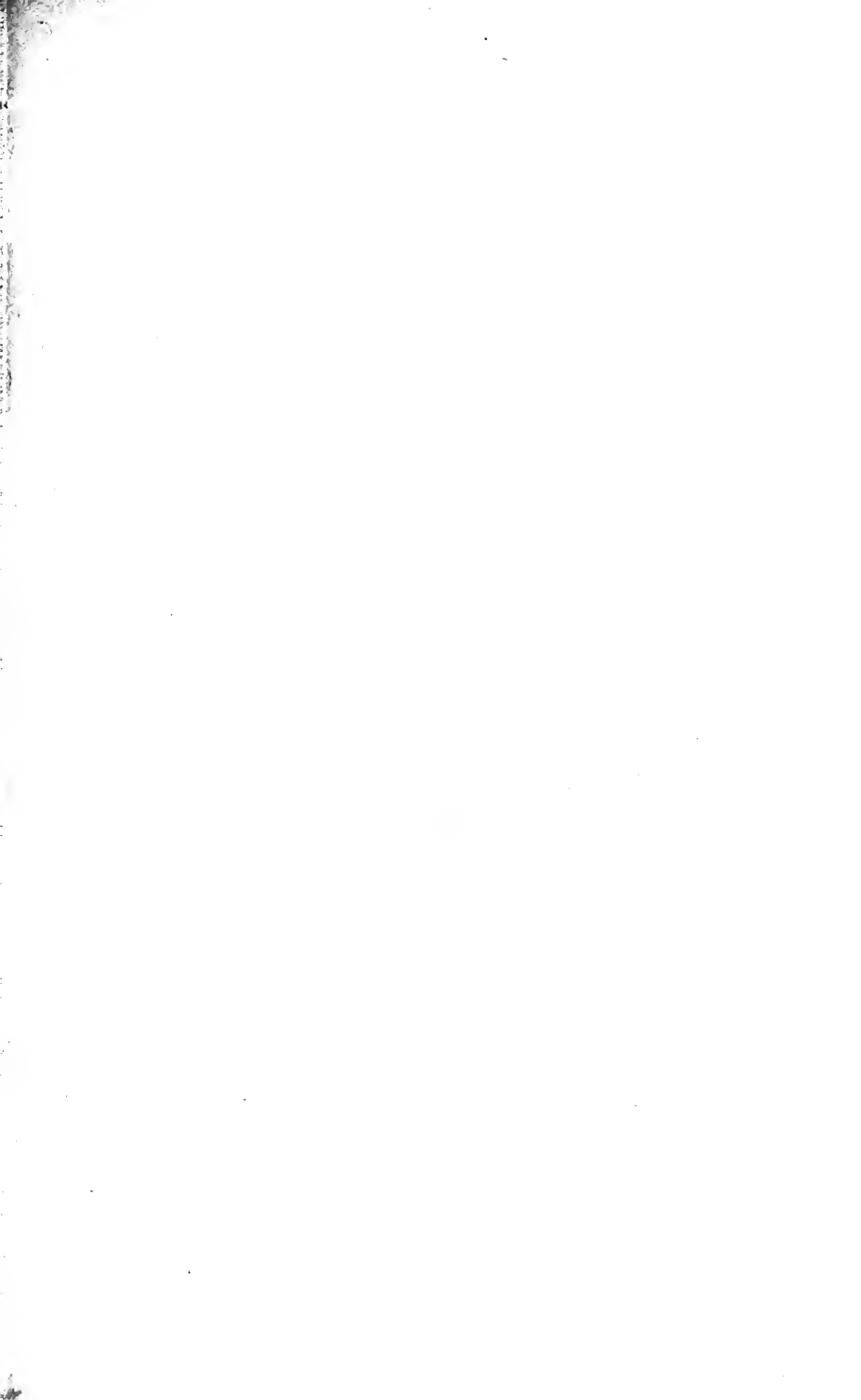
I have sought in these matters to see how, under the

most orthodox system, and leaving the Bank Charter practically intact, we might secure a second reserve to the country. I think I am bound to inform you that, in this matter, I have been in communication with the authorities of the Bank of England. I am not authorised to say we are agreed upon any plan. We are working at a plan. We are endeavouring to see whether some plan cannot be devised by which these violent fluctuations, these internal panics, can be mitigated. It is difficult to deal with an external panic; but an internal panic might sometimes be saved by a further issue of notes, not as at present on credit, but against a reserve which has accumulated by such measures as I have endeavoured to describe. The withdrawal of the light coin, which is a measure to which you know I am committed, would facilitate to a great extent the introduction of any further reforms and measures such as I have suggested. I suspended the rehabilitation of the coinage because I thought it might be tacked on to larger measures. These measures I am thinking out, and, if the public should approve of any action being taken, and the time of Parliament should permit, it would, I assure you, be a satisfaction to me to devise some cautious measure which would redound to the advantage not only of the banking but of the mercantile community. I feel, and I painfully feel, and I ask your indulgence and the indulgence of the public and of my critics in this respect, that it is impossible within the limits, even the extreme limits, which your patience has allowed me to occupy to-night, to do justice to a large currency plan, or even to such modified suggestions as I have made. They cannot be understood simply from the utterances to which I have given expression to-night. But I have endeavoured to indicate this at least—that I am determined not to be a party to a plan which would weaken our resources; on the contrary, it is to the strengthening of our reserves in every quarter that I consider our attention should be directed. An after-dinner atmosphere is not one which

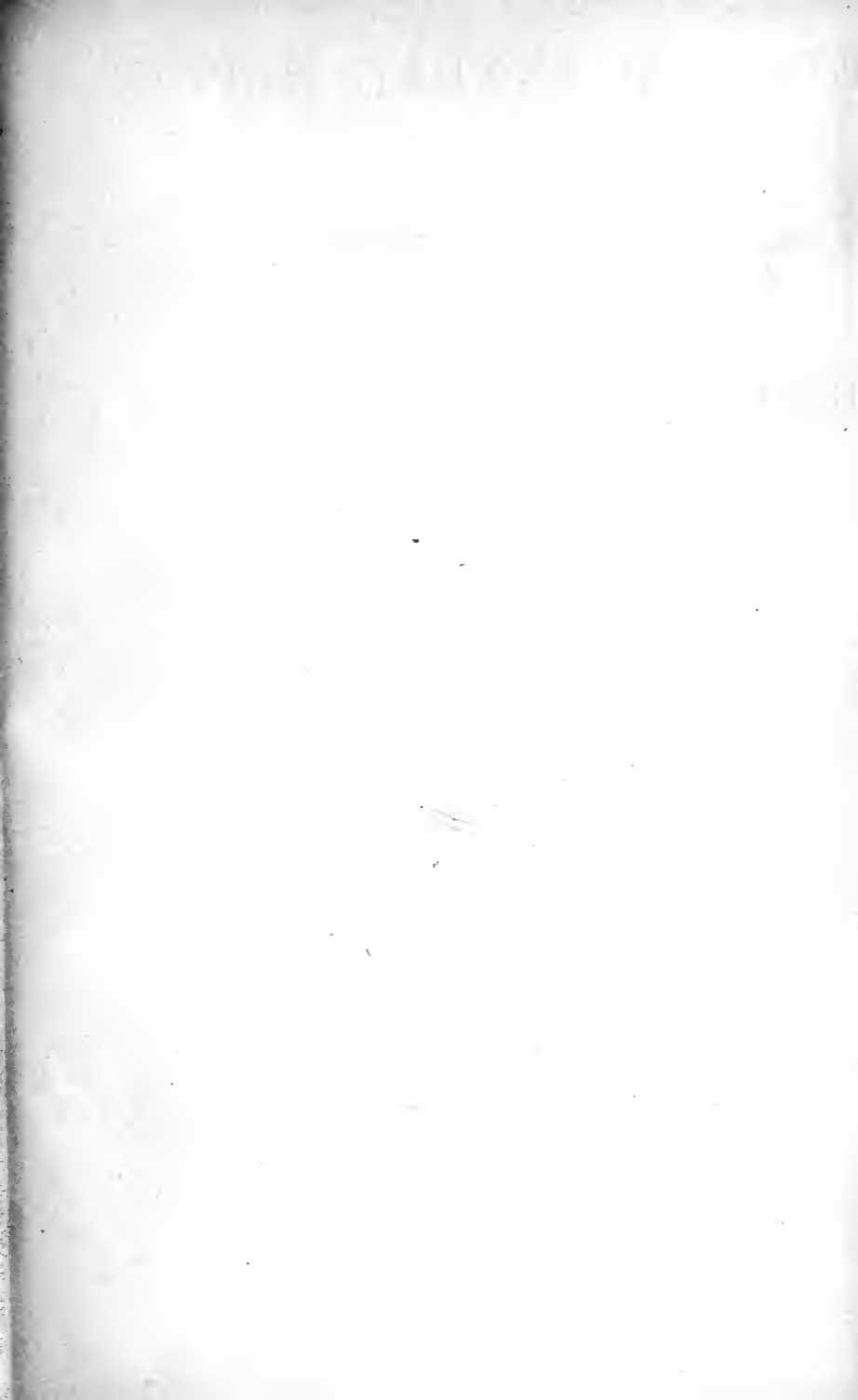


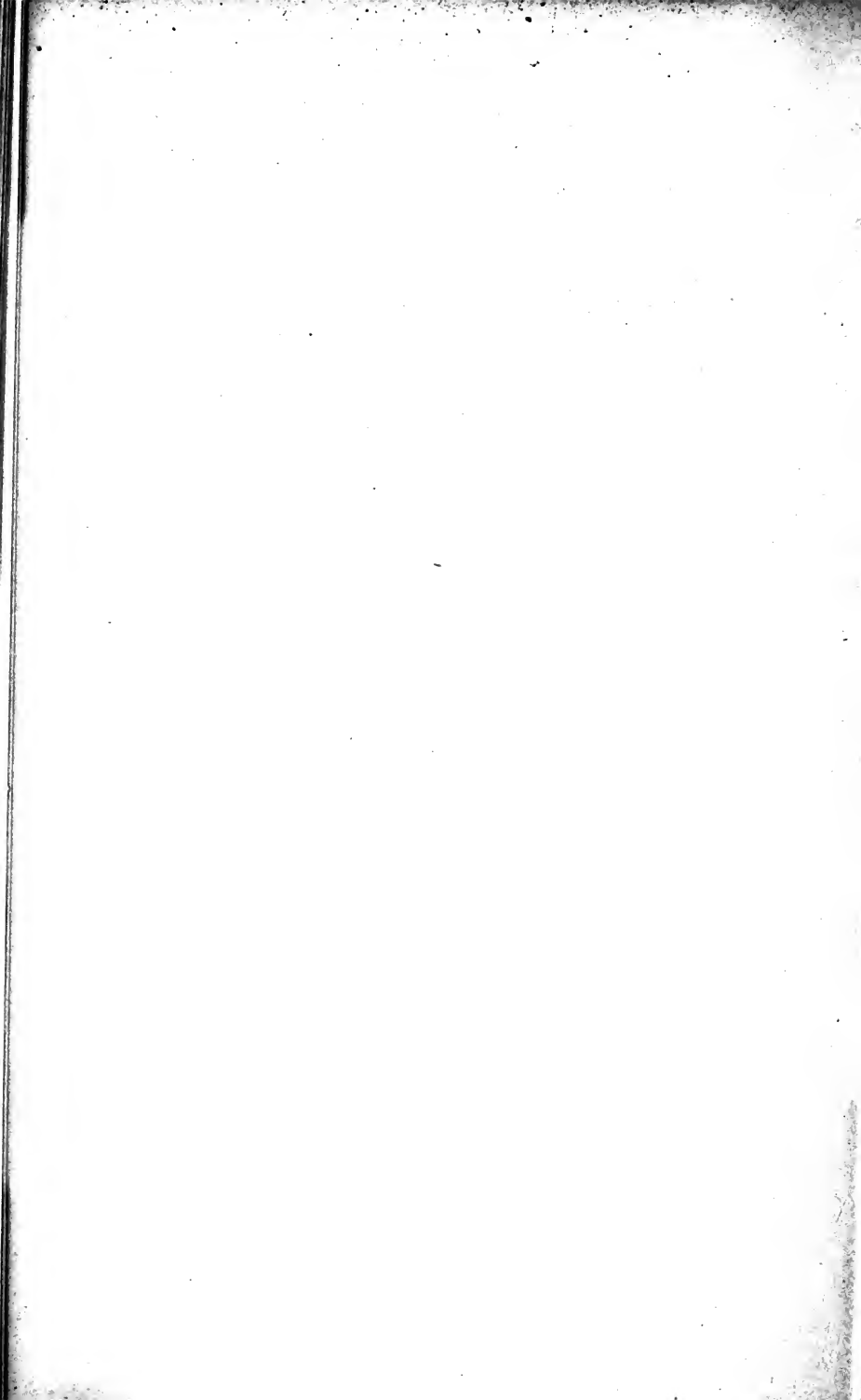
is fit for the discussion of such subjects as I have intruded upon you ; but remember the words, if you will be kind enough to do so, with which I introduced these lengthy remarks. Remember these are not matters which concern only the banking community, or are only matters of high abstract theory, but that they are immediate matters of practical interest. If we can secure that there shall not be such violent fluctuations, if we can avoid an occasional panic, or mitigate such panics as cannot be avoided, we shall have done something which may not, I hope, be regarded by our fellow-countrymen as unworthy of their support and commendation.

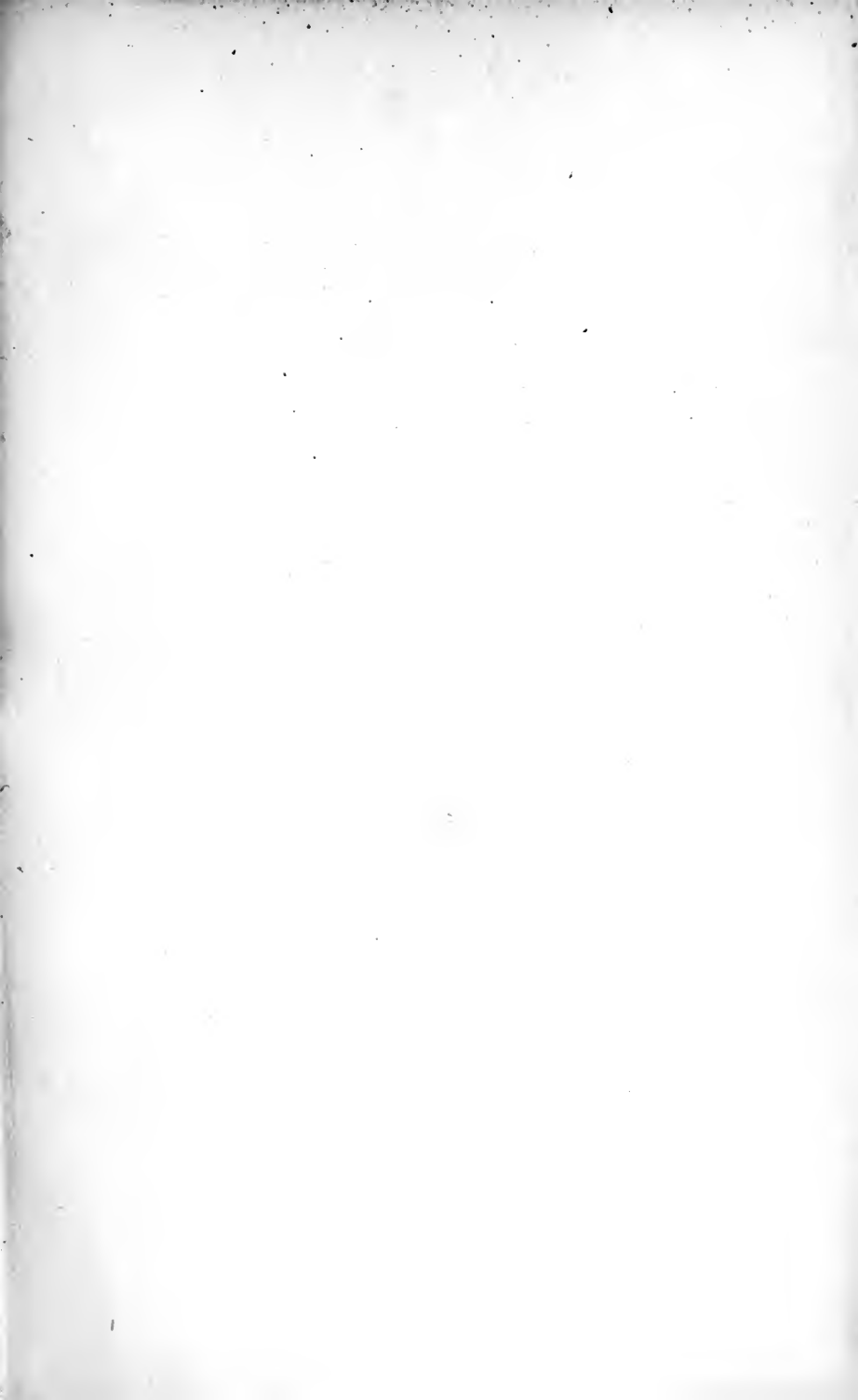
















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